

# Econ 440: Economics of Labor Markets

**University of Illinois at Urbana-Champaign**

Department of Economics

Fall 2012

Tuesday & Thursday, 9:30-10:50 am

Room: 123, David Kinley Hall

Office hours: Tuesday, 3:30-5:30 pm

**Evangelia Chalioti**

Office: 101, David Kinley Hall

Email: [chalioti@illinois.edu](mailto:chalioti@illinois.edu)

## Course Description

This course introduces the major topics of economic analysis of labor markets. It intends to provide students with a solid understanding of theoretical models of investment in human capital, wage determination and employment. It will shed light on labor supply and demand, income inequality, unemployment, immigration, and discrimination. Topics include job matching, earnings distribution, job turnover, minimum wages and union wage effects.

This course will consider simple economic models to explain individuals behavior and often motivate the analysis of economic concepts using case studies and empirical facts. The objective is to equip students with sufficient command of theory and empirical applications so as to understand and analyze labour market dynamics. By the end of this course, the students should also be able to assess the relevance and implications of economic models for policy.

## Course website

This course uses Illinois Compass2g as the course website. Students registered for the course may log in at <https://compass2g.illinois.edu/>. This website will contain copies of all lecture notes, class handouts, answer keys, and most readings. A sample of (next day's) lecture notes will be available on compass2g before each class. Use also this website to communicate with me. The button "mail" must be visible to you. If you have problems accessing or navigating the course website, see <http://www.cites.illinois.edu/compass/students/index.html>

## Prerequisite

Basic and intermediate-level microeconomics (ECON 302) are the prerequisites for this class. You should also be familiar with basic calculus such as derivatives as well as with constrained optimization problems such as profits and utility maximization. Prior knowledge on basic game theory and industrial organization - monopoly, competition, welfare analysis - are strongly recommended.

## Readings

The lecture notes will be posted over the course on the homepage to reflect the current lectures.

Main textbook for the lectures is:

- *Borjas, G., Labor Economics, McGraw-Hill, 5th edition*

The 4th edition is also an alternative. The website for the textbook has study questions that you may find useful. [http://highered.mcgraw-hill.com/sites/0073511366/information\\_center\\_view0/](http://highered.mcgraw-hill.com/sites/0073511366/information_center_view0/).

- Selected readings from recent research and case studies will also be assigned. They will be posted on the Compass2g website over the course.

Supplementary books:

- *Ehrenberg, R. and R. Smith, Modern Labor Economics: Theory and Public Policy*

This textbook covers the same material as the main textbook and has additional study questions with answers.

- *Cahuc, P. and A. Zylberberg, Labor Economics, Cambridge Mass: MIT Press, 2004*

- *Ashenfelter, A. and D. Card, Handbook of Labor Economics, Elsevier*

## Problem Sets

Problem sets will be available on line over the course. They are not graded and need not be turned in. Some problems will be discussed in class. Working through the problem sets is very important for the understanding of the course material (and getting better prepared for the midterm and final exams).

## Attendance policy

Attendance to class is mandatory. It will help in mastering the course material and getting prepared for the exams, since presentation slides will be used as a text, problems will be solved and case studies will be discussed. An attendance sheet will be circulated in every class.

## Examination information

1st midterm exam: Tuesday, October 2, 9:30-10:50 am

2nd midterm exam: Tuesday, November 6, 9:30-10:50 am

Final exam (university-scheduled)

Any information about the exams will be announced in class as well as at the course homepage.

**Exam week policies:** Note that the last two days before the date of examination, I will not respond to emails about the course material or personal requests. If you want to talk to me, I will hold office hours on Mondays, October 1 and November 5, 9:00am - 12:00pm.

## Grading

The course grade will be the weighted average of the followings:

1st midterm exam: 30%

2nd midterm exam: 30%

Final exam: 40%

- All exams will be based on lectures, class discussions, problem sets and readings assigned during the course. The final exam will be cumulative.

- Curving is minimal. However, if the grade of a midterm exam is lower than that of the final, the final exam will be used as a make-up (so as to help a student's grade). It will weight 50% and the midterm exam 20%. No other policies will apply.

- You may on occasion have questions about exam grading. Any re-grading request means that I reserve the right to re-grade the entire assignment (not only the question in which you think there was a mistake).

- You are required to inform me of any known conflict as soon as possible but no later than two weeks before the date of examination.

- If you miss one of the midterm exams for a valid reason - e.g. medical emergency - you must notify me before the exam begins. The final exam will be used as a make-up of the final score only for those that supply supporting evidence *and* the note from the Emergency Dean (which will certify the validity of your reason for absence). A make-up exam will be arranged only under extraordinary circumstances.

- Missing an exam without approval will result in a failing grade for that exam.

## Remarks

- Lectures are not self-contained. It is not expected that you will be able to follow a lecture if you have gaps in your knowledge from prior lectures.

- It is not expected that understanding the lectures will prepare you to perform well in the exams. Successfully completing the problem sets *and* reading the covered sections of the textbooks are necessary components for such preparation.

- The use of cell phones, smart phones, or other mobile communication devices is disruptive, and is therefore prohibited during class.

- Academic Integrity: Violations of academic integrity as given in the Code of Policies and Regulations will be taken seriously. See [http://www.uiuc.edu/admin\\_manual/code](http://www.uiuc.edu/admin_manual/code). Cheating in any way is considered a very serious offense. Anyone caught cheating in this course will be subject to the penalties discussed in the Code. These penalties include, among others, a failing grade (F) for the course and dismissal from the University.

## Student assistance

The Division of Disability Resources and Educational Services (DRES) has been designated by the University as the primary office to guide, counsel and assist students with disabilities. Their phone number is (217) 333-4603. If you already receive services through DRES and require accommodations for this class (note taking assistance, extended time for tests, etc.), make an appointment with me as soon as possible to discuss your approved accommodation needs but not later than January 31. I will hold any information you share with me in the strictest confidence.

The Counseling Center (<http://www.counselingcenter.illinois.edu/>) is committed to organizing study skills workshops and providing a range of services intended to help students to cope with their personal issues. If you feel need help with your writing skills, you can contact the Writers Workshop at the Center for Writing Studies.

## Lectures

The lectures are the core element of the course. The following is an outline of them.

Required readings: \*, Recommended: •, Optional: °

### Introduction

- The actors in the labor market

•Borjas: CH 1

•Goldin, C., 1994, "Labor Markets in the 20th Century", NBER Historical Working Paper, no. 58

°Katz, L., and D. Autor, 1999, "Changes in the Wage Structure and Earnings Inequality", The Handbook of Labor Economics, Vol. 3A, Ch 26

°Lucia Matikani, "U.S. jobless rate drops to 2-1/2 year low", December 2, 2011, Reuters

### Labor supply

- Labor force; worker's preference; budget constraint

\*Borjas: Ch. 2 and 3 in 4th edition (4e), Ch. 2 in 5th edition (5e)

°Blundell, R., and T. MaCurdy, 1999, "Labor Supply: A Review of Alternative Approaches", The Handbook of Labor Economics, Vol. 3A, Ch 27

### Labor demand

- Employment decision in the short and long run; demand curve for labor; elasticity of substitution; Marshall's rules of demand

\*Borjas: Ch. 4.1-4.8 in 4e, Ch. 3.1-3.8 in 5e

°Hamermesh, D., 1993, "Labor Demand", Princeton University Press, Ch 2-3

°Farber, H., 2007, "Job Loss and the Decline in Job Security in the United States", Princeton University Industrial Relations Section, Working Paper no. 520

### **Labor market equilibrium**

- Competitive equilibrium across labor markets; effects of minimum wages; impact of immigration; taxes versus subsidies; policy implications

\*Borjas: Ch. 4.9-4.10, 5.1-5.4 in 4e, Ch. 3.9-3.10, 4.1-4.8 in 5e

°Brown, C., 1999, "Minimum Wages, Employment, and the Distribution of Income", *The Handbook of Labor Economics*, Vol. 3A, Ch 32

### **Compensation, benefits, and other job attributes**

- Markets for risky jobs; compensating differentials; job amenities; health insurance

\*Borjas: Ch. 6 in 4e, Ch. 5 in 5e

### **Human capital: education, training, and health**

- The schooling model; education and earnings; lifetime earnings; schooling as a signal; on-the-job training

\*Borjas: Ch.7 in 4e, Ch. 6 in 5e

°Willis, R. J., 1987, "Wage Determinants: A Survey and Reinterpretation of Human Capital Earnings Functions", *The Handbook of Labor Economics*, Vol. 2., Ch 10

°Freeman, R., 1987, "Demand for Education", *The Handbook of Labor Economics*, Vol. 2., Ch 6

### **The wage structure**

- Earnings distribution; inequality across generations

\*Borjas: Ch. 8 in 4e, Ch. 7 in 5e

### **Labor mobility and immigration**

- Geographic, internal, family migration; intergenerational mobility of immigrants

\*Borjas: Ch. 9.1-9.6 in 4e, Ch. 8.1-8.8 in 5e

°Borjas, G., 1995, "The Economic Benefits from Immigration," *Journal of Economic Perspectives* 9, no. 2, p. 3-22

### **Turnover and Job lock**

- Job match; training and job turnover; age-earnings profile

\*Borjas: Ch. 9.8-9.11 in 4e, Ch. 8.9-8.12 in 5e

°Petrongolo, B. and C. A. Pissarides, 2001, "Looking into the Black Box: A Survey of the Matching Function," *Journal of Economic Literature* 39, p. 390-431

### **Unions**

- Determinants of union membership; monopoly unions; bargaining; union wage effects

\*Borjas: Ch. 11.1-11.3, 11.7 in 4e, Ch. 10.1-10.7 in 5e

°Farber, H., 1987, "The Analysis of Union Behavior", Handbook of Labor Economics, Vol. 2

°Booth, A. L., 1995, "The Economics of the Trade Union", Cambridge: Cambridge University Press (Ch 4, 5, 6, 7)

### **Incentive Pay**

- Work incentives; performance evaluation schemes; tournaments; efficiency wages

\*Borjas: Ch. 12 in 4e, Ch. 11 in 5e

### **Unemployment, Job Search, and Unemployment Insurance**

- Types of unemployment; job search; unemployment compensation; the Phillips curve

\*Borjas: Ch. 13.1-13.7, 13.11 in 4e, Ch. 12 in 5e