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 103 (Principles of Microeconomics)

Textbook: The course will emphasize the material covered during lectures, but a textbook is also available as a study guide:


NOTE: All editions after the 5th are very similar, so please feel free to use them instead. For what it may be worth, older editions are often much less expensive.

Here are some other texts you might consider reading for a different presentation from what McConnell et al. offer. They should be on (physical) reserve in the UWM library:


Grading

Undergraduate students: Grades will be based on homework (15 percent), class participation (5 percent), two midterm exams (50 percent), and the final exam (30 percent). However, your grade may be reduced for poor attendance and/or tardiness. See below for a description of each component.

Graduate students: Grades will be based on homework (10 percent), class participation (5 percent), two midterm exams (50 percent), a final exam (25 percent), and a paper (10 percent). See below for a description of each component.

1. **Homework:** There will be 8 homework assignments during the semester. They can be downloaded from the course page on D2L, which is listed above. The purpose of homework is not to test your understanding (that is what exams are for), but rather to develop it. This idea guides the homework policies in this class:
   a. The goal in grading homework is to reward the effort to understand, rather than immediate understanding itself. It is okay to make mistakes—sometimes you can learn a lot from them, provided you put in some thought and effort. In keeping with this, you will receive full credit for any homework assignment on which you display a reasonable effort to answer the questions.
   b. Because discussion promotes learning, students are encouraged to work together and discuss homework assignments. However, each student must submit assignments individually—in his or her own words—and properly acknowledge all sources and assistance received.
   c. Homework must be turned in on time. Late work will not be accepted.

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, and bringing up a new example in discussion helps others see how the 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. (The average mark on this part has historically been in the A-/B+ range.) 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 cumulative final exam. Each exam 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. There will be no “multiple choice” questions. Sample exams are available on the course page on D2L.

   **Midterm exam dates:** March 4, April 15
   **Final exam date:** May 13, 5:30-7:30 PM

The first exam will cover the broad model of labor supply and demand, the determinants of labor supply, human capital, and possibly migration. The second exam will cover labor demand, personnel economics, and the wage structure. The final exam is comprehensive, but it will primarily emphasize material not addressed on the first two exams, specifically labor unions, discrimination, and the distribution of income.

4. **Paper** (Graduate students only): The graduate students in the class will be assigned a short paper (about 5 pages) on the economics of compensation. The specific topic to be addressed will be announced in mid-semester, and the paper will be due on April 22.
**Course and Departmental Policies**

1. **Attendance and Promptness Policy:**

   Attendance and promptness are mandatory. Both absences and entering/exiting the class during lectures are unfair to other students: absences make it difficult to keep everyone “on the same page,” and late arrivals/early exits create a distraction.

   These considerations will be factored into undergraduate students’ grades. If a student misses more than two class periods, his or her grade shall be reduced by two percentage points for each additional absence. For example, a student who misses four classes will incur a penalty of 4 percentage points, which is likely to make a difference of about ½ letter grade (e.g., B instead of B+).

   Students who arrive after attendance has been taken must notify the professor after the class session in order to assure that they receive credit for attending.

   Absences may be excused in exceptional circumstances—such as when a student is ill, attending a funeral, or observing a religious holiday. (Vacations are NOT exceptional circumstances.) It is the student’s responsibility to inform the professor of the special circumstances. Those are also the only circumstances in which any student who misses an exam will be allowed to take a makeup exam.

   In addition, if class extends beyond the end of the scheduled class period, 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.

2. **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.

3. **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: [http://www4.uwm.edu/acad_aff/policy/academicmisconduct.cfm](http://www4.uwm.edu/acad_aff/policy/academicmisconduct.cfm).

   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.

4. **Cellular Telephones:**

   In order to prevent class disruptions and academic dishonesty, cellular telephones should be turned off and put away during both lectures and exams.

5. **Accommodations and Other Departmental/University Policies:**

   Information on UWM’s and the Department of Economics’ official policies on participation by students with disabilities, accommodation for religious observances, academic conduct, complaint procedures, grade appeal procedures, sexual harassment, incompletes, and other standing policies is available in the Economics Department office or at [http://www.uwm.edu/Dept/SecU/SyllabusLinks.pdf](http://www.uwm.edu/Dept/SecU/SyllabusLinks.pdf). Students needing accommodations of any sort (e.g., for disabilities or religious observances) should contact me during the first two weeks of class.
Expectations and General Orientation:

- Plan to spend 1 to 2 hours on each homework assignment. If it takes you longer, consider coming to my 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 should come to class prepared. At the least, this means skimming 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.
- Attendance and promptness are mandatory. See above.
- 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.

Expected Time Commitment

- Class meetings and final exam: 44 hours
- Problem sets (8 @ 1.5 hours each): 12 hours
- Reading (13 chapters @ 2 hours each): 26 hours
- Review/Study (5 hours/week): 80 hours
- Total: 162 hours across the semester

Note that this is merely an estimate for an average student; actual time is likely to vary widely across students. Graduate students will likely devote less time to study, but they will also spend about 10 hours on their papers.

Course Narrative

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 surveys both schools of thought. It begins by covering the main features of neoclassical labor economics—factors determining the supply and demand of workers. The major forces discussed in this unit are the number of workers in a labor market, their willingness to sell their time, and employers’ willingness to pay them. While there will undoubtedly be some variation in the outcomes experienced by different people, we will mainly discuss workers (and jobs) as if they are interchangeable with one another, at least within a particular occupation, industry, or 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 thus covers 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 “principal-agent problem”), compensation of high-level executives, and some factors that influence how the workload is divided within the firm.

The final unit examines the variability of wages across people. Among other things, we will study the structure of wages—that is, how wages vary across occupations, industries, and demographic groups—as well as recent trends in the inequality of wages across people and theories that purport to explain those trends. We will also look at two major institutions that create differences in wages: discrimination and labor unions.
The Economic Perspective

The purpose of this class is to teach you the economic perspective on labor issues. Many of you already have extensive backgrounds in other fields with different approaches these topics—for example, industrial psychology, sociology, or accounting. While those other approaches have much to offer, you should understand that this class is designed to teach the economic approach. Accordingly, your answers to homework and exam questions should reflect a point of view from economics rather than some other discipline—not because we think other disciplines are wrong, but because you are here to learn the economic approach.

So what is this “economic perspective?” It has several characteristics:

First, as you would imagine, economists generally stress the importance of things like prices, costs, the limited availability of resources and information, property rights, and regulations. Unlike some other disciplines, things like psychology and interpersonal relationships are not discussed much. For example, suppose that we observed that some worker received a raise. An economist would not argue that the employer gave the raise in order to be “fair,” but she might argue that the raise was designed to reduce the value to the worker of looking for a different, higher-paying job. In part, this difference simply reflects academic specialization—that is, if we think prices and so forth matter, then somebody should focus their attention on such factors, while someone else might focus their attention on psychology. A related reason is that economists are often less concerned about the outcomes of specific individuals than they are about broader trends in the economy, as discussed below.

Second, economists generally operate under the assumption that persons make the best decisions they can in light of their goals and whatever constraints they face. (This is often called the “rational actor” model of human behavior.) For instance, we generally believe that firms care only about making profits, and further that this goal of profit-maximization drives their decisions about how much to produce and how to produce it (for example, what combination of machines and labor to use). Similarly, consumers are said to purchase the most desirable combination of goods they can afford—according to whatever preferences they may have. In the labor context, we think workers decide how much to work based on the wage rate they can earn and their feelings about the relative values of free time and money.
Third, the standard methodology of economics is to begin with a simple, abstract explanation for trends in the data. We recognize that this explanation will not be able to account for some variation around the broad trends, but we usually think that the broad trends are important enough to merit our attention. One might draw an analogy with meteorology. Meteorologists are pretty good at things like tracking weather systems and predicting the likelihood and possible quantity of precipitation, but they usually cannot give us much advanced information about whether there will be, for instance, more snowfall in Shorewood or Glendale between 10 PM and midnight. Still, there is much value in knowing that there is a good chance that up to six inches of snow will fall somewhere in the area. Analogously, no labor economist can perfectly forecast the career of a specific individual, yet they can provide a lot of useful information about things like (just to choose one example) the average amount by which attending college increases students’ future earnings, how that amount tends to vary with students’ major field of study and grade point average, and how it changes as employees get older and gain more experience on the job.

Fourth, in many cases economists believe individuals and firms are price-takers—that is, that no one can charge a price above the going rate (or offer to pay a price below it) because no one would buy their product if they did. It is believed that many, even most, markets share this characteristic, and we call such markets competitive markets. Of course, we do recognize that not all markets are competitive; for example, in an industry with a single seller (a monopoly), that seller will indeed have some ability to set its own price. Nevertheless, competitive markets are common enough that economists are generally wary of a theory in which, say, a firm names its own price. Such a hypothesis usually will not be accepted unless it is explained why the firm has that power to set its own price in the first place.
Course Outline (Expect to spend about one week on each “capital letter” of the outline, with some variation.)

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. 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

V. Wage Structure: Who Earns How Much and Why (Chapters 8 and 13)

[EXAM 2 ABOUT HERE]

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

VII. Distribution of Income: Growing Inequality (Chapter 16)
<table>
<thead>
<tr>
<th>Date</th>
<th>Topics</th>
<th>Exams</th>
<th>Due</th>
<th>Readings</th>
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<tr>
<td>Jan. 28</td>
<td>Introduction, review of supply and demand</td>
<td></td>
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<td>Chs 1 and 6</td>
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<tr>
<td>Feb. 4</td>
<td>Finish review, start labor supply</td>
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<td>Prob set 1</td>
<td>Ch 3</td>
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<td>Feb. 11</td>
<td>Labor supply</td>
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<td>Ch 2</td>
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<td>Feb. 18</td>
<td>Human capital, possibly migration</td>
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<td>Prob set 2</td>
<td>Chs 4, 9</td>
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<tr>
<td>Feb. 25</td>
<td>Labor demand</td>
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<td>Prob set 3</td>
<td>Ch 5 (inc appendix)</td>
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<tr>
<td>Mar. 4</td>
<td>Finish labor demand, EXAM 1 (through labor supply)</td>
<td>Exam 1</td>
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<td>Mar. 11</td>
<td>Go over exam. Start personnel economics</td>
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<td>Prob set 4</td>
<td>Ch 7</td>
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<td>Mar. 18</td>
<td>SPRING BREAK - NO CLASS</td>
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<td>Mar. 25</td>
<td>Personnel economics.</td>
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<td>Ch 7</td>
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<td>Apr. 1</td>
<td>Finish personnel economics; wage structure.</td>
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<td>Prob set 5</td>
<td>Chs 8 and 13</td>
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<td>Apr. 8</td>
<td>Unions</td>
<td></td>
<td>Prob set 6</td>
<td>Ch 10-11</td>
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<td>Apr. 15</td>
<td>Finish unions. EXAM 2 (through wage structure)</td>
<td>Exam 2</td>
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<td>Apr. 22</td>
<td>Go over exam, start discrimination.</td>
<td></td>
<td>Prob set 7</td>
<td>Ch 14</td>
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<td>Apr. 29</td>
<td>Discrimination, start distribution of income.</td>
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<td>Ch 16</td>
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<td>May 6</td>
<td>Finish distribution of income. Summarize course.</td>
<td>Prob set 8</td>
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<td>May 13</td>
<td>Final exam (5:30 - 7:30 PM)</td>
<td>Final exam</td>
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Also: Graduate students' papers are due on April 22.