

LABOR ECONOMICS
ILRLE 5400
Fall 2016

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Office Hours:
Tuesdays 1:30 PM – 3:30 PM
(other times by appointment)

Brief Course Description and Learning Outcomes:

This is a course in labor market economics for prospective managers in the corporate, union, not-for-profit and public sectors. The course describes and applies economic theory and tools of economic analysis to the characteristics and processes of the labor market. Both the demand and supply sides of the market will be explored, presenting the tools of decision analysis for workers and firms. Various topics in workplace management are also explored, such as deciding the optimal mix of labor and capital to employ, attracting and retaining talent, pay and productivity, hiring and training investments, and using strategic budget constraints. The final section of the course will explore other key labor market issues, including analysis of public policies, unemployment, discrimination, and poverty and inequality.

Upon successful completion of this course, you will:

- Gain a rigorous understanding of the behavior of workers and firms and the functioning of labor markets;
- Predict and evaluate the consequences of public policies and external events;
- Improve your abilities as a manager in corporate, union, not-for-profit and public settings.

Prerequisites:

ECON 1110, CRP 5120 or equivalent. Students who lack the prerequisite must attend three supplemental lectures:

1. Wednesday, August 24, 2016 from 3:30 PM to 5:00 PM via WebEx
2. Wednesday, August 31, 2016 from 3:30 PM to 5:00 PM via WebEx
3. Wednesday, September 7, 2016 from 3:30 PM to 5:00 PM via WebEx

Information on how to join the WebEx lectures is provided in Blackboard.

Please note: students who have completed the prerequisites but would like a refresher are welcome to participate in these three supplemental lectures.

Academic Integrity:

Each student in this course is expected to abide by the Cornell University Code of Academic Integrity (<http://cuinfo.cornell.edu/Academic/AIC.html>) and the Campus Code of Conduct (<http://www.dfa.cornell.edu/cms/treasurer/policyoffice/policies/volumes/governance/upload/CC.pdf>) “Absolute integrity is expected of every Cornell student in all academic undertakings. Integrity entails a firm adherence to a set of values, and the values most essential to an academic community are grounded on the concept of honesty with respect to the intellectual efforts of oneself and others.” Please read and understand these policies.

Any work submitted by a student in this course will be the student’s own. You are permitted – and encouraged – to discuss course materials with your fellow students and work together to develop your understanding of concepts and applications. However, all work submitted for a grade is to be completed by each student independently.

All course materials – including but not limited to readings, lecture slides and handouts, review sheets, problem sets, and examinations – are intellectual property belonging to the author(s). The buying, selling or (re)posting of any course materials or video or audio recordings of lectures is expressly prohibited; engaging in such behavior constitutes academic misconduct with serious consequences. If you have any questions, please let me know.

Violations of the Cornell Code of Academic Integrity and Cornell’s Code of Campus Conduct will be taken seriously. Typically, students are most tempted to violate these codes when they are experiencing difficulties and/or are concerned about their course grade. If you are experiencing difficulties or are concerned to that degree, please reach out and talk to me, your Teaching Assistant, or an academic advisor.

Classroom / Community Responsibilities:

A large part of the academic experience is the challenging of viewpoints and exploring issues from differing perspectives. You are encouraged to express differences of opinion and challenge viewpoints in a mutually respectful manner that opens up dialogue and does not threaten any member of the learning community. Our classroom environment will be a safe place for the open exchange of ideas by all participants. Each participant is responsible for ensuring that his or her own behavior promotes this.

Additionally, it is important that we take care of ourselves and each other. Please see me if you want to talk about the course or anything else.

Students with Disabilities

Your access in this course is important. Please provide me with your Student Disability Services (SDS) accommodation letter early in the semester so that I have adequate time to arrange your approved academic accommodations. If you need immediate accommodation for equal access, please speak with me after class or send an email message to me (with a cc to the Student Disability Services office at sds_cu@cornell.edu). If the need arises for additional accommodations during the semester, please contact SDS.

Course Outline

The course will be divided into three broad sections:

1. Demand and Supply in Labor Markets
 - a. Purposeful behavior and market level analysis
 - b. The demand for labor by firms
 - c. The supply of labor by workers
2. Workplace Management: An Economic Approach
 - a. The bottom-line workplace management approach
 - b. The economics of human capital and return on investment
 - c. Interdependent decisions: labor and capital markets
 - d. Strategic compensation systems
 - e. Bottom line metrics
 - f. Alternatives to bottom line management
3. Additional Topics in Labor Market Analysis
 - a. Policy analysis in the labor market
 - b. Unemployment
 - c. Discrimination
 - d. Poverty and Inequality

A more detailed outline with learning objectives is provided at the end of this document.

Readings

The required text for this course is Ronald C. Ehrenberg and Robert S. Smith, *Modern Labor Economics: Theory and Public Policy*, 12th Edition (2015). Additional required readings will be assigned throughout the semester and will be posted in Blackboard.

All required readings should be completed prior to class. Lectures and class discussions will draw upon these readings, so please come to class with all required readings completed.

Exams and Grading

All students are expected to sit for three examinations. Each examination will count for one-third of your course grade. The dates and times of these examinations are as follows:

Exam #1 – September 22, 2016 from 11:40 AM to 12:55 PM in Ives 217

Exam #2 – November 1, 2016 from 11:40 AM to 12:55 PM in Ives 217

Exam #3 – Date, time and location to be announced (University-determined: exam period runs from December 7 through December 15)

All examinations are closed-book. You are expected to bring with you to the examination writing utensils (pens and/or pencils for recording your answers in blue books) and a basic calculator (no programmable calculators). You are encouraged to bring a watch since you may not be able to clearly see the classroom clock from your examination seat. No mobile phones, tablets, computers, etc., will be permitted for either calculator or time display functionality.

Attendance at, and participation in, all examinations is mandatory. There are **no makeup examinations**; absence from any examination will result in a grade of zero (0) for that examination. Please schedule your travel and other commitments accordingly.

Examinations will be graded according to the rubric given at the end of the syllabus. Students **will not be graded on a curve**, and no forced grade distribution will be imposed. There will be as many “A” grades as there are students who earn them.

Suggestions for Approaching Learning in This Course

Here are some suggestions from me, other faculty who have taught this course, and other students who have completed the course.

1. **Know what goes on in every class.** It is your responsibility to be aware of all lecture materials, assignments, class handouts, and announcements. The best way to do this is to attend every class.
2. **Keep up with the class material.** This is not a course where you can do all of the work right before the exam. Prepare the required readings prior to class, participate fully in each class, and review your lecture notes soon after each class to make sure your notes are as complete as possible.
3. **Do all of the readings.** There are a reasonable number of readings. You will perform best on exams if you can demonstrate mastery of the materials from both lectures and required readings. While preparing, look for complementarities between the lectures and the readings.
4. **Form study groups.** You are strongly encouraged to work together outside of class to ensure that you understand all of the course materials. Peer learning can be a valuable approach to mastering the materials – if you can explain it coherently to someone else, you probably understand it.
5. **Prepare answers to previous exams.** While exam questions differ from year to year, previous exams are good indicators of the kinds of questions that will be asked in the current year. Write out answers to previous examinations on your own, and then work with other students in your study group to review and compare your answers with one another and the “A” answers written by last year’s students.

Lecture Schedule

Date	Event	Topic
August 23	Lecture 1	Chapter 1 – Economics, Economic Models and Policy
August 24	Supplemental Lecture #1: 3:30 PM – 5:00 PM via WebEx	
August 25	Lecture 2	Chapter 2 – Labor Markets: Concepts and Definitions
August 30	Lecture 3	Chapter 3 – Labor Demand: Short Run
August 31	Supplemental Lecture #2: 3:30 PM – 5:00 PM via WebEx	
Sept 1	Lecture 4	Chapter 3 – Labor Demand: Long Run
Sept 6	Lecture 5	Chapter 4 – Elasticity
Sept 7	Supplemental Lecture #3: 3:30 PM to 5:00 PM via WebEx	
Sept 8	Lecture 6	Chapter 6 – Labor Supply: Part 1
Sept 13	Lecture 7	Chapter 6 – Labor Supply: Part 2
Sept 15	Lecture 8	Chapter 7 – Household Production and Family Decisions
Sept 20	<i>Review Class for Exam #1</i>	
Sept 22	<i>Exam #1</i>	
Sept 27	Lecture 9	Chapter 5 – Labor Market Frictions: Supply-Side
Sept 29	Lecture 10	Chapter 5 – Labor Market Frictions: Demand Side
Oct 4	Lecture 11	Chapter 8 – Compensating Wage Differentials: Part 1
Oct 6	Lecture 12	Chapter 8 – Compensating Wage Differentials: Part 2
Oct 11	<i>Fall Break – No Classes</i>	
Oct 13	Lecture 13	Chapter 9 – Human Capital: Part 1
Oct 18	Lecture 14	Chapter 9 – Human Capital: Part 2
Oct 20	Lecture 15	Chapter 11 – Pay, Performance and Productivity: Part 1
Oct 25	Lecture 16	Chapter 11 – Pay, Performance and Productivity: Part 2
Oct 27	<i>Review Class for Exam #2</i>	
Nov 1	<i>Exam #2</i>	
Nov 3	Lecture 17	Chapter 12 – Gender, Race, Age and Disability
Nov 8	Lecture 18	Chapter 12 – Models of Discrimination
Nov 10	Lecture 19	Chapter 14 – Unemployment: Empirics
Nov 15	Lecture 20	Chapter 14 – Unemployment: Policy Prescriptions
Nov 17	Lecture 21	Chapter 15 – Earnings Inequality: Empirics
Nov 22	Lecture 22	Chapter 15 – Earnings Inequality: Policy Prescriptions
Nov 24	<i>Thanksgiving – no class</i>	
Nov 29	Lecture 23	Readings: Current Topics in Labor Economics
Dec 1	<i>Review Class for Exam #3</i>	
Dec 7 – Dec 15	<i>Final Exam Period: Exam #3</i>	

iCal Download:

<https://calendar.google.com/calendar/ical/h5dne12ah25uv8012qpefqjo8%40group.calendar.google.com/public/basic.ics>

Detailed Course Outline and Learning Objectives

Section 1: Demand and Supply in Labor Markets

Chapter 1: Introduction

The basic purpose of this chapter is to introduce you to the two major modes of economic analysis: positive and normative. The treatment of positive economics includes a discussion of the concepts of rationality and scarcity. The discussion of normative economics emphasizes its philosophical underpinnings.

Learning Objectives:

1. Categorize the kinds of questions answered by labor market analysis
2. Differentiate between positive economic arguments and normative economic arguments
3. Explain the three common reasons for market failure and evaluate governmental policies aimed at mitigating these failures with respect to equity and efficiency

Chapter 2: Labor Market Concepts and Definitions

This chapter introduces the essential concepts, definitions, magnitudes and trends of widely used labor market descriptors. It also provides an overview of labor market analysis.

Learning Objectives:

1. Compare and contrast common descriptive measures of the labor market
2. Explain the relationship between the labor demand schedule and product demand, the choice of technology, and the supply schedules of competing factors of production
3. Explain the relationship between the labor supply schedule and workers' alternatives and preferences
4. Relate the concepts of shortages and surpluses to the relationship between actual and equilibrium wage rates

Chapter 3: Labor Demand

This chapter studies the downward sloping nature of the labor demand function. It begins with a discussion of profit maximization and moves from this assumption to the marginal conditions with respect to labor. Additional insights into the marginal productivity theory of demand are provided.

Learning Objectives:

1. Explain how the process of profit maximization relates to the production intensities of factors of production
2. Analyze the relationship between the marginal product of labor curve and the labor demand curve
3. Compare and contrast isoquants and isocosts as they relate to the process of profit maximization

4. Assess the impact of a payroll tax on equilibrium levels of wages and employment
5. Distinguish between labor demand in the short run and labor demand in the long run as they relate to the fixity of capital
6. Articulate the relationship between costs of factors of production and marginal productivities of those factors as they relate to profit maximization in the long run

Chapter 4: Elasticity

This chapter examines the magnitude of the employment response to a change in the wage rate. The Hicks-Marshall laws of derived demand are discussed, relating each of the four laws to the substitution and scale effects. Cross-wage elasticities are discussed, along with the concepts of gross substitutability and gross complementarity.

Learning Objectives:

1. Calculate and explain own-wage elasticity of demand
2. Illustrate how the four Hicks-Marshall laws of derived demand relate to the scale and substitution effects of a change in the wage rate
3. Calculate and explain cross-wage elasticity of demand and its implications for substitutability and complementarity in production
4. Distinguish substitutability and complementarity in production from gross substitutability and gross complementarity in production

Chapter 6: Labor Supply

This chapter analyzes an individual's decision concerning whether and for how long to work in the context of the labor/leisure choice framework. The concepts of income effects and substitution effects, as they relate to the labor/leisure tradeoff, are presented graphically.

Learning Objectives:

1. Analyze the impact of income and substitution effects on an individual's labor supply decisions
2. Illustrate utility maximization as it relates to the labor/leisure tradeoff using indifference curves and budget constraints
3. Explain the relationship between an individual's reservation wage and his labor force participation decision
4. Assess the impact of various income subsidy programs using the labor/leisure tradeoff framework

Chapter 7: Household Production and Family Decisions

This chapter analyzes the labor supply decision in the context of household production theory. Here, the primary alternative to working for pay is not assumed to be leisure, but household production. This framework is useful for the discussion of labor supply in the context of the family and of the individual across the life cycle.

Learning Objectives:

1. Hypothesize whether household commodities will be produced by time-intensive methods or by goods-intensive methods when the price placed on time is high or low
2. Relate the household members' marginal productivities at home and the wages commanded in the labor market to joint household production decisions
3. Explain how labor supply decisions over the life cycle are affected by changes in household productivity and in wages that create intertemporal substitution effects without corresponding income effects

Section 2: Workplace Management – An Economic Approach

Chapter 5: Labor Market Frictions

This chapter analyzes the implications of labor market frictions on both the worker and employer sides of the labor market. Common labor market frictions include worker mobility costs, monopsony, quasi-fixed labor costs, and the tradeoff between increasing employment through adding workers or hiring workers for longer hours.

Learning Objectives

1. Critically assess the relevance of the law of one price to the functioning of real world labor markets
2. Summarize the implications of limited worker mobility on labor supply
3. Explain the profit-maximization process under imperfectly competitive labor markets
4. Compare and contrast variable labor costs and quasi-fixed labor costs
5. Summarize the impact of quasi-fixed costs on firm adjustment of labor input
6. Describe the profit-maximization process with respect to the employment/hours tradeoff

Chapter 8: Compensating Wage Differentials

This chapter introduces the concept of compensating wage differentials, focusing on occupational choice and the wage outcomes that flow from this choice when jobs differ along nonpecuniary dimensions. These nonpecuniary dimensions are presented within the context of hedonic theory.

Learning Objectives:

1. Describe the dual role of compensating wage differentials
2. Articulate the assumptions of hedonic wage theory
3. Evaluate empirical data on compensating wage differentials with respect to predictions from theory
4. Describe the process of matching employers and workers using the indifference curve/isoprofit framework
5. Analyze the relationship between the market equilibrium curve, the offer curve, and the zero-profit isoprofit curves of employers in the market
6. Discuss the effects of government intervention on a perfectly functioning labor market

Chapter 9: Human Capital

This chapter examines human capital from both the worker and the employer perspective. The theory of human capital investment is discussed and a formal model of choice is presented. The relationship between education and earnings is explored in the context of age/earnings profiles. Finally, investments in human capital on the part of the employer are assessed.

Learning Objectives:

1. Hypothesize whether investments in human capital are likely to be undertaken given an individual's age, the cost of those investments, and potential returns to investments
2. Evaluate empirical data on worker returns to human capital investment with respect to predictions from theory
3. Assess the impact of common biases in the estimated relationship between human capital investments and worker returns
4. Critically evaluate whether the cost of training should be borne by the employer and/or by the worker
5. Compare and contrast general human capital and firm-specific human capital
6. Choose the optimum level of job training from the perspective of the employer

Chapter 11: Pay, Productivity and Performance

This chapter explores the relationship between pay, performance and productivity. General issues related to worker motivation are presented, following by an analysis of how motivation is affected by the basis of pay, the level of pay, and the sequencing of pay. Topics discussed include common pay-for-performance elements, efficiency wages, and promotion tournaments.

Learning Objectives:

1. Evaluate strategies for coping with information asymmetries with respect to practical application
2. Discuss the relative merits of incentive intensity and level of pay on worker motivation
3. Compare and contrast gains from sorting and gains from incentives as they apply to pay-for-performance systems
4. Discuss the relationship between division of the surplus, efficiency wages and employee productivity
5. Compare and contrast alternative strategies for sequencing of pay
6. Assess the relative merits of standard promotion processes and promotion tournaments

Section 3: Additional Topics in Labor Market Analysis

Chapter 12: Gender, Race, Age and Disability

This chapter begins with a comprehensive inquiry into wage differentials by gender, race and ethnicity, age, and disability status. Overall differentials are decomposed into measurable productivity differences and unexplained differences. Theories of market discrimination are presented, along with noncompetitive models of discrimination, such as occupational crowding, dual labor markets, and search-based monopsony.

Learning Objectives:

1. Evaluate observed wage differentials with respect to measurable productivity differences and unexplained differences
2. Appraise the role of measurable non-productivity differences in explaining observed wage differentials by gender
3. Discuss the role of occupational segregation on observed wage differentials and hypothesize potential solutions
4. Illustrate the impact of wage discrimination on the profit-maximizing process
5. Compare theories of competitive market discrimination to theories of noncompetitive market discrimination with respect to their applicability to real world scenarios

Chapter 14: Unemployment

This chapter presents the four general types of unemployment. Frictional unemployment is examined in the context of search theory and the effects of unemployment benefits on job search. Structural unemployment is analyzed from occupational and geographic imbalances, government policy, and efficiency wages.

Learning Objectives:

1. Compare and contrast various types of unemployment with respect to causes, persistence, and remedy.
2. Assess the theory of job search as a potential explanation for frictional unemployment
3. Critically evaluate the hypothesis that more generous unemployment benefits increase unemployment.
4. Assess the role of geographic and occupational imbalances in creating and maintaining structural unemployment
5. Critically evaluate the hypothesis that efficiency wages create structural unemployment
6. Hypothesize ways in which government intervention may remedy various types of unemployment

Chapter 15: Earnings Inequality

This chapter analyzes changes in earnings inequality after the 1980s along the dimensions of occupational distribution, relative wages, hours of work, and earnings dispersion within narrowly defined human capital groups. The underlying causes of growing inequality are categorized into (a) supply factors, (b) institutional changes, and (c) demand-side influences.

Learning Objectives:

1. Critically evaluate various measures of earnings inequality
2. Describe the trends in earnings inequality observed during the last three decades in the United States
3. Discuss the role of increased returns to human capital investments as a potential explanation for growing earnings inequality
4. Analyze the role of supply factors, institutional changes, and demand-side influences on growing earnings inequality within the United States
5. Formulate policy suggestions to remedy growing earnings inequality