Economics of Wages and Employment: Economics 433

Course Description

Economics 433 provides a comprehensive overview of topics related to workings of labor markets. This course carries credit for research (R), social studies (SS), quantitative studies (QS), writing (W), and ethical inquiry. Courses coded R are to help students learn ways in which new knowledge is created, organized, accessed, and synthesized. You will gain such knowledge by reading and discussing original research articles for top-ranked economics journals. Courses coded EI are to encourage students to assess individual and societal consequences of public and personal decision-making. This course takes a societal perspective on such issues as discrimination, income and wealth inequality, and public policies aimed to decrease inequality such as those pertaining to schooling and the minimum wage.

Labor economics is a field in applied microeconomics. It draws on basic microeconomic concepts that I assume that students have had. It also assumes some knowledge of statistics and econometrics, even though I will provide some help with this in class. You will learn more about how quantitative method are used in practice.

The course has several objectives. The first is to sharpen your skills in microeconomics and in empirical analysis. Second, the course will improve your understanding about how economic analysis is used to help in understanding important public policy issues. The analysis contained in the course has many public policy implications. You will see the broad range of important public policy issues that labor economics encompasses. Many of these issues are well publicized by the media, but often without the analytic tools that economics provides. The most recent election is a case in point. The selection of readings for the course have been influenced by the most recent election. We will cover such issues as effects of the minimum wage, growing income and wealth inequality, immigration, and provision of maternity leave. Informed public policy making relies on empirical evidence, frequently coupled with ethical judgments. Hopefully, the material taken as a whole will encourage at least some of you to pursue related work in economics and an honors thesis. Third, for students planning on entering careers in business, the course offers practical analysis that employers can use in setting personnel policies for their organizations. Even if you are not planning to work in a human resources department, plausibly for the majority of those planning to enter a business career, labor is an important input in virtually any production process, making it important to gain an understanding of the personnel issues with which firms deal. Fourth, the course aims to help improve students’ skills in speaking and writing. You will be giving presentations on some assigned journal articles and you will write a term paper.

Both a textbook and readings from economics journals are assigned and are required reading. I plan to cover the entire textbook. (I have tried to teach without a text in the past, but this did not work well.) George Borjas, the author, is a well-known labor
economist who currently specializes in migration issues. I am assigning the sixth edition. For Duke students, reading a textbook provides a framework and the basics of the empirical evidence. It is important that our students read some empirical texts in the original.

I have also assigned readings, which are listed below. I will start a class about once a week with a short test (10 minutes in length). The main purpose of testing is to be sure that you have done the reading before class and have an understanding of the fundamentals. An important function of the student presentations is to allow students to describe the issues rather than hear everything according to the professor’s interpretation.

**Tests and Grading**

There will be one mid-term and a final examination. The final will focus on material covered since the mid term and on issues not covered by the mid-term exam. You will be responsible for more material for the tests than I can possibly ask you about in the time allotted for the test. The questions will be essay questions.

The weights given to the above in determining the final grade are:

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<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Mid-term</td>
<td>16%</td>
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<tr>
<td>Final exam</td>
<td>32</td>
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<tr>
<td>Paper</td>
<td>20</td>
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<td>Short tests</td>
<td>12</td>
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<td>Class presentations</td>
<td>10</td>
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<td>Class participation</td>
<td>10</td>
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<td><strong>Total</strong></td>
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The grade on class participation is based on student participation in class. Having taught many students over the years, I do not grade on a curve.

**Outline and Readings:**

I. **Introduction to Labor Economics**

II. **Labor Supply**

III. **Labor Demand**


IV. **Labor Market Equilibrium**


V. **Compensating Wage Differentials**


VI. **Human Capital**


VII. **Wage Structure**


VIII. **Labor Mobility**


### IX. Labor Market Discrimination


### X. Labor Unions


### XI. Incentive Pay


### XII. Unemployment


**Schedule of Topics and Exams**

January 11: Introduction to Labor Economics and Topics in Labor Supply  
January 16: No Class Martin Luther King day  
January 18: Topics in Labor Supply  
January 23: Labor Demand  
January 25: Labor Demand  
January 30: Labor Market Equilibrium  
February 1: Labor Market Equilibrium  
February 6: Compensating Wage Differentials  
February 8: Compensating Wage Differentials  
February 13: Human Capital  
February 15: Human Capital  
February 20: **Mid-Term Exam**  
February 22: Wage Structure  
February 24: Wage Structure  
February 27: Wage Structure  
March 1: Labor Mobility  
March 6: Labor Mobility  
March 8: Labor Market Discrimination  
March 13: No class, Spring break  
March 15: No class, Spring break  
March 20: Labor Market Discrimination  
March 22: Labor Market Discrimination  
March 27: Labor Market Discrimination  
March 29: Labor Market Discrimination  
April 3: Labor Unions  
April 5: Labor Unions  
April 10: Labor Unions  
April 12: Incentive Pay  
April 17: Incentive Pay  
April 24: Unemployment  
April 26: Unemployment  
May 3: **Final Exam, 2-5 pm**
Schedule for Term Paper (Turn in your work by 9 pm on the dates indicated):

January 25: Topic selected (one page writeup)
February 6: List of potential references (20+ largely from economics journals)
February 27: Preliminary literature review (8-10 pages exclusive of tables, figures, references)
April 5: Draft of full paper (about 20 pages exclusive of tables, figures, references)
April 24: Final paper (about 20 pages exclusive of tables, figures, references—a guide, not an absolute page limit)
I will automatically subtract 5 points for each 24-hour period for which an assignment is late. Percent of paper grade: Topic selection (10%); List of references (10%), Preliminary literature review (20%), Draft (30%), Final paper (30%).

I will provide you with a list of suggested paper topics. These are only suggestions. I only ask that the term paper fit under one of the 11 headings above (excluding I, which is the Introduction). You may cite up to two papers on the reading list.