

Spring Semester 2009
Frank A. Sloan

Labor Economics: Economics 155/255

Course Description

Economics 155/255 provides a comprehensive overview of topics related to workings of labor markets. Labor economics is a field in applied microeconomics. It draws on basic microeconomic concepts which I assume that students have had. It also assumes some knowledge of statistics, even though I will provide some help with this in class.

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. Hopefully, the material 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 is 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 graduate students (writing a term paper is required of graduate students) and those undergraduate students who elect to do so will write a term paper. Those undergraduates who elect to write a term paper will not take the final exam. Presentations of papers will take place during the time scheduled for the final exam (April 29, 2008, 7-10 pm). Students taking the final will do this during the time allocated for the final.

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. The edition (4th edition) is quite new. Yet even so, there are even newer articles, such as the first one we will read for this class. 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. Often, but not always, I will start a class in which a reading will be discussed 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. When there is a student presentation of an article, we will generally not have a short test. 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 for students who do not write a term paper. 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. I do not give multiple choice tests, although many questions to be given to you to study for the exams are likely to be in this format.

In addition, there will be homework assignments which consist of problems or a short writing assignment on an issue. I anticipate that there will be 5 homework assignments during the semester. The weights given to the above in determining the final grade are:

Mid-term	18%
Final exam/paper	35
Homework/short tests	30
Class participation	<u>17</u>
	100

The grade on class participation is based on student presentations and participation in class more generally. Having taught many students over the years, I do not grade on a curve.

Outline and Readings

- I. Introduction to Labor Economics
Lazear, Edward and Kathryn Shaw, "Personnel Economics: The Economist's View of Human Resources," *Journal of Economic Perspectives*, Fall 2007, pp. 91-114 (1).
- II. Labor Supply
- III. Topics in Labor Supply
Bailey, Martha, "More Power to the Pill: The Impact of Contraceptive Freedom on Women's Long-Run Labor Supply," *Quarterly Journal of Economics*, Feb. 2006, pp. 289-320 (2).

- Augiar, Mark and Erik Hurst, "Measuring Trends in Leisure: The Allocation of Time Over Five Decades," *Quarterly Journal of Economics*, Aug. 2007, pp. 969-1006 (3).
- IV. Labor Demand
 Card, David and Alan Krueger, "Minimum Wages and Employment: A Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review*, Sept. 1994, pp. 772-793 (4).
 Neumark, David and Nizalova, O., "Minimum Wage Effects in the Longer-Run," *Journal of Human Resources*, 42(2), Sept. 2007, pp. 435-452 (5).
- V. Labor Market Equilibrium
 Bayer, Patrick, Stephen Ross, and Giorgio Topa, "Place of Work and Place of Residence: Informal Hiring Networks and Labor Market Outcomes," *Journal of Political Economy*, 116, no. 6, 2008, pp. 1150-96 (6).
- VI. Compensating Wage Differentials
 Viscusi, W.Kip, and Joseph Aldy, "The Value of a Statistical Life: A Critical Review of Estimates Throughout the World," *Journal of Risk and Uncertainty*, 27, no. 1, 2003, pp. 5-74 (7).
 Olsen, Craig, "Do Workers Accept Lower Wages in Exchange for Health Benefits?" *Journal of Labor Economics*, 22(2, pt.2), pp. S91-S214 (8).
- VII. Human Capital
- VIII. The Wage Structure
 Case, Anne and Christina Paxson, "Stature and Status: Height, Ability, and Labor Market Outcomes," *Journal of Political Economy*, 116, no. 3, 2008, pp. 499-532 (9).
 Piketty, Thomas and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics*, Feb. 2003, pp. 1-39 (10).
 Sacerdote, Bruce, "Slavery and the Intergenerational Transmission of Human Capital," *Review of Economics and Statistics*, May 2005, pp. 217-234 (11).
 Hausman, Jerry and Gregory Leonard, "Superstars in the National Basketball Association: Economic Value and Policy," *Journal of Labor Economics*, 15(4), 1997, pp. 586-624 (12).
- IX. Labor Mobility
 Card, David, "The Impact of the Mariel Boatlift on the Miami Labor Market," *Industrial and Labor Relations Review*, Jan. 1990, pp. 245-257 (13).
 Borjas, George, "The Labor Demand Curve is Downward-Sloping: Reexamining the Impact of Immigration on the Labor Market," *Quarterly Journal of Economics*, Nov. 2003, pp. 1334-1374 (14).
- X. Labor Market Discrimination
 Black, Dan, Amelia Haviland, Seth Sanders, and Lowell Taylor, "Why Do Minority Men Earn Less: A Study of Wage Differentials Among the Highly Educated," *Review of Economics and Statistics*, Feb. 2006, pp. 300-313 (15).
 Charles, Kerwin Korfi and Jonathan Guryan, "Prejudice and Wages: An Empirical Assessment of Becker's *Economics of Discrimination*," *Journal of Political Economy*, 116, no. 5, 2008, pp. 773-809 (16).

McCrary, Justin, “The Effect of Court-Ordered Hiring Quotas on the Composition and Quality of the Police,” *American Economic Review*, March 2007, pp. 318-353 (17).

Cutler, David and Edward Glaeser, “Are Ghettos Good or Bad?” *Quarterly Journal of Economics*, Aug. 1997. pp. 827-872 (18).

Card, David, Alexandre Mas, and Jesse Rothstein, “Tipping and the Dynamics of Segregation,” *Quarterly Journal of Economics*, Feb. 2008, pp. 177-218 (19).

Bertrand, Marianne and Sendhil Mullainathan, “Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination,” *American Economic Review*, September 2004, pp. 991-1013 (20).

XI. Labor Unions

Mas, Alexandre, “Pay, Reference Points, and Police Performance,” *Quarterly Journal of Economics*, Aug. 2006, pp. 783-821 (21).

XII. Incentive Pay

Bertrand, Marianne and Sendhil Mullainathan, “Are CEOs Rewarded for Good Luck? The Ones Without Principals Are,” *Quarterly Journal of Economics*, Aug. 2001, pp. 901-932 (22).

Golden, Brian and Frank Sloan, “Physician Pay for Performance: Alternative Perspectives” in Frank Sloan and Hirschel Kasper, eds., *Incentives and Choice in Health Care*. Cambridge, MA: MIT Press, 2008, pp. 289-317 (23).

XIII. Unemployment

Schedule of Topics and Exams

January 7: Introduction to Labor Economics
 January 12: Introduction to Labor Economics and Labor Supply
 January 14: Topics in Labor Supply
 January 19: No Class (MLK Day)
 January 21: Topics in Labor Supply
 January 26: Labor Demand
 January 28: Labor Demand
 February 2: Labor Market Equilibrium
 February 4: Labor Market Equilibrium
 February 9: Compensating Wage Differentials
 February 11: Compensating Wage Differentials
 February 16: Human Capital
 February 18: Mid-Term Exam
 February 23: Wage Structure
 February 25: Wage Structure
 March 2: Wage Structure
 March 4: Labor Mobility
 March 9: No Class
 March 11: No Class
 March 16: Labor Mobility

March 18: Labor Market Discrimination
March 23: Labor Market Discrimination
March 25: Labor Market Discrimination
April 2: Labor Market Discrimination
April 7: Labor Unions
April 9: Labor Unions
April 14: Incentive Pay
April 16: Incentive Pay
April 21: Incentive Pay
April 23: Unemployment

April 29: Final examination (7-10 pm)

Schedule for Term Paper (all due at beginning of class)

January 21: Topic selected (one page writeup)
January 28: Literature review on topic (5-8 pages)
March 25: Preliminary draft of paper
April 7: Final draft of paper (25 pages exclusive of references)

I will automatically subtract 5 points for each 24-hour period for which assignment is late.