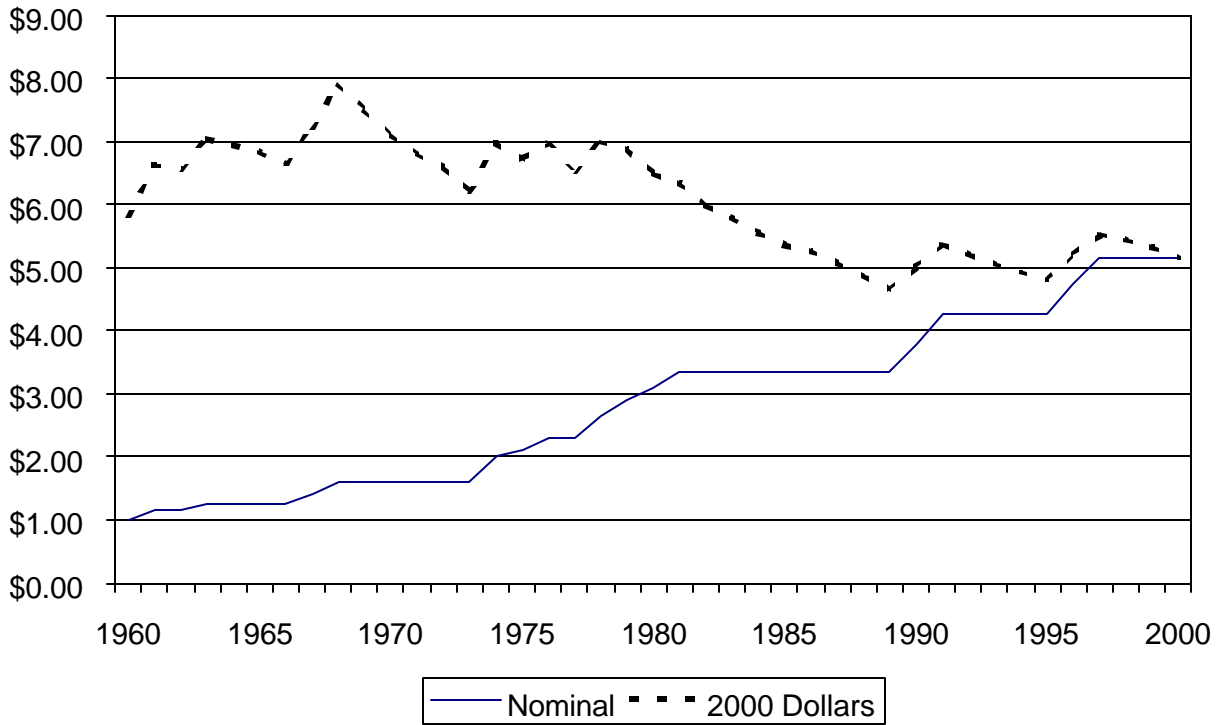


1. Labor demand when other inputs can be adjusted (long run)
 - Scale effect of wage change: wage increase raises costs, therefore reduces production, and therefore reduces quantity demanded of labor
 - Substitution effect: wage increase tends to make it attractive to substitute other inputs for labor
 - Complements and substitutes. Illustration: Computers, programmers, and clerical workers
 - * Effect of decrease in price of computers on demand for clericals:
Scale effect is positive, substitution effect is negative (substitutes in production)
 - * Effect of decrease in price of computers on demand for programmers:
Scale effect is positive, substitution effect is positive (complements in production)
2. Elasticity of labor demand and its determinants
 - Elasticity = % change in L demanded / % change in wage
 - Determinants of elasticity operating through the scale effect
 - Determinants of elasticity operating through the substitution effect
 - Estimates of labor demand elasticity: about -0.5 in short run, maybe -1 in long run, but varies by industry
3. Monopsony
 - Pure monopsony: Market with a single demander (employer) of labor. Consequence: Employer does not take wage as fixed by the market.
 - More generally, a firm with *monopsony power* does not take the wage as fixed. In other words, if the employer were to cut the wage, it would not lose all its employees.
 - Analysis: $ME_L > w$. Why? In order to hire one more worker, the employer must raise the wage a little for all workers. Thus the additional cost is not just the new worker's wage, but the added expense of paying all the employees a little more.
 - Graphical analysis: monopsony employment and wage are lower than competitive outcome
 - Does monopsony exist in the real world? Examples. Possible sources of monopsony power.
4. Employment effects of the minimum wage: introduction
 - History of minimum wage legislation and levels (nominal and real)
 - Minimum wage and poverty reduction: how well targeted?
 - Analysis: competitive market

Midterm exam Thursday (10/25): To cover material through last Thursday's class. Readings covered: Notes on Labor Economics, chapters 1-5; Notes on Regression, whole thing

Homework due Tuesday, 10/30: see attached.

Federal minimum wage, nominal and real (2000 dollars)



Federal minimum wage as percentage of median wage

