

Economics 150

Labor Economics

Fall 2001

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1. Description

In this course we will apply microeconomic theory and statistical analysis to the study of labor markets. Labor economics deals with many of the most important issues in economics: How much do people earn, and what determines their earnings? Who works for pay, and who does not? How do tax and transfer policies affect work decisions? By how much does education increase earning power? Has income inequality increased in the United States, and if so why? Why are women and minorities paid less on average than white men? Does the minimum wage reduce poverty? Does it cause job loss?

Of course, it is one thing to claim that the minimum wage causes job loss in theory; it is quite another to come up with the evidence to prove (or disprove) the theory. Labor economists devote a great deal of attention to the statistical analysis of data—especially individual-level data, such as census surveys—to test their theories. In this course you will analyze real-world data sets using the statistical technique most widely used by labor economists: multiple regression.

2. Prerequisites

ECON 12, ECON 13, *and* BUSN 41 (second statistics course). BUSN 41 is *essential* for this course.

3. Readings

All the readings for this course will be available on-line at the course web site (some will require a link to E-Res, where our course password is **labor**). Please note that you *do not* need to purchase the textbook at the bookstore (George Borjas, *Labor Economics*). Additional short readings may be added during the quarter. I expect students to have read the assigned readings in advance and to come to class prepared to discuss them.

4. Projects

Over the quarter you will be assigned two hands-on data analysis projects. The goal is to give you a feel for the kind of data labor economists actually use, and how they analyze it statistically. The first project will be on an assigned topic, using data from the Current Population Survey (CPS), the major government survey that is used to study the income, employment, and demographic characteristics of the American population. The second (final) project will be on a topic of your own choosing (I will

have suggestions and data if you need them). The final project is due the morning of the final exam. *Late projects will not be accepted.*

Project I: Estimating an earnings equation DUE November 1
Project II: Final data analysis project:
 c Topic proposal DUE November 15
 c Final project report DUE December 5, 9:10 a.m.

5. Software and data

I recommend that you use *Excel* to perform the data analysis. All data will be in Excel format, and in-class demonstrations and examples will use Excel. You can use the computer labs or your own PC. Data will be available at the course web site, and should be downloaded to your own disk.

6. Homework and class participation

Short homework assignments covering the theoretical content of the course will be assigned once or twice a week and graded on a T, T- basis. Class participation may include brief presentations on your data analysis projects as well as discussion of the readings and homework problems. *Late homeworks will not be accepted.* The three lowest homework scores (including any you miss) will be dropped.

7. Exams

The midterm exam will be in class on Thursday, October 25. The final exam will be held at the scheduled time (Wednesday, December 5, 9:10 a.m. **S** no exceptions) and will cover the second half of the course.

8. Course requirements and grading

Your grade will be based on the following:

Assignment	Approximate weight
Homework and class participation	20%
Midterm exam	20%
First data analysis project	15%
Final data analysis project	25%
Final exam	20%

Schedule of Topics and Readings

I. Introduction (September 18)

1. Some definitions, facts, and figures
2. Overview of supply and demand analysis of the labor market

Reading: Sundstrom, *Notes on Labor Economics*, chapters 1-2

II. Labor supply (September 20, 25, 27; October 2)

1. Time allocation model: budget constraints and indifference curves
2. Hours of work: effect of wage changes
3. The participation decision: role of income and wages
4. Labor supply of married women
5. Work incentive effects of transfer programs
6. Life cycle labor supply and occupational decisions
7. Individual vs. household decision models
8. Population: births, deaths, and migration

Reading: Sundstrom, *Notes on Labor Economics*, chapters 3-4

III. Regression models in labor economics (October 4, 9, 11)

1. Regression basics: fitting a line
2. Multiple regression
3. Useful regression statistics and diagnostics
4. What can go wrong
5. Logs and dummy (0-1) variables
6. Application: estimating an earnings equation

Reading: Sundstrom, *Notes on Regression*

IV. Labor demand (October 16, 18, 23)

1. Short run: marginal product model and its interpretation
2. Long run: output and substitution effects
3. Labor demand elasticities
4. Effects of the minimum wage (theory and evidence)

Readings: Sundstrom, *Notes on Labor Economics*, chapter 5; Card and Krueger, *Myth and Measurement*, chapter 2

Midterm: October 25

V. Labor-market equilibrium and applications (October 30, November 1, 6)

1. Competitive labor-market equilibrium
2. Payroll taxes and subsidies
3. Monopsony and its implications
4. Monopoly and its implications
5. Globalization and U.S. labor markets

Readings: Rodrik, *Has Globalization Gone Too Far?* chapter 2; additional readings TBA

VI. The determination of earnings (November 8, 13, 15)

1. Market model of earnings: supply and demand, productivity, and compensating differentials
2. Human capital model: formal schooling and on-the-job training
3. Signaling model
4. Evidence on the return to schooling
5. Unions, internal labor markets, and other institutions
6. Application: Differences in earnings between college-educated men and women

Readings: Smith, *The Wealth of Nations*, chapter 10 (selections); Sundstrom, *Notes on Labor Economics*, chapter 6; Weiss, "Human Capital vs. Signalling Explanations of Wages"; Weinberger, "Mathematical College Majors and the Gender Gap in Wages"

VII. Inequality in U.S. labor markets (November 27, 29)

1. Recent trends in earnings and earnings inequality
2. Inequality by race, ethnicity, and gender
3. Discrimination in the labor market: theory and measurement
4. Policy options

Readings: To be announced