

BC3019: Labor Economics, Fall 2004-2005

Department of Economics, Barnard College, Columbia University

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### Course Description

This course will introduce you to the economics of labor markets. The first part of the course will focus on labor supply and labor demand, and some direct applications. Labor force participation rates of women, welfare and work incentives, earnings gap across skill groups and technological progress, and fixed costs of employment are some of the topics we will discuss in the context of this basic theory of supply and demand. The second part of the course will focus on a variety of labor market topics including human capital theory, household production, compensating wage differentials, quasi-fixed labor costs, job market signaling, labor mobility, and discrimination analysis. In addition, we will cover some key topics from managerial/personnel economics such as pay for performance, group incentives, and CEO compensation.

### Text

Modern Labor Economics, R. Ehrenberg and R. Smith, Addison Wesley Longman Publishers, any recent addition including the 8<sup>th</sup> Edition. Additional reading materials will be posted in Courseworks.

### Prerequisites

The prerequisite for the course is intermediate microeconomics. Under special request I will consider a student who is concurrently taking intermediate microeconomics. Students are also encouraged to take Statistics and Econometrics prior to taking this class, although they are not prerequisites.

### Requirements and Grading

There will be regular homework assignments. Homework will be collected but not graded. Complete answer sheets will be posted in Courseworks. Students should take the homework seriously as it is essential to learning the material. Final course grade will be based on a 2-hour midterm examination (40%), a short take home essay (20%), and a final examination (40%).

Important Dates; Midterm Exam: TBA; Final Exam: TBA

### Course Topics

1. Labor Supply: Choice-theoretic model of labor supply; reservation wage; welfare and work incentives; time and fixed costs of working. Text: chapter 6.
2. Labor Demand: Marginal productivity theory of labor demand; minimum wages; own-wage elasticity of demand; effects of technological change. Text: chapter 3 and 4.
3. Wage Determination: Interaction of supply and demand to determine the wage rate. Text: chapter 2.
4. Theory of Household production: Market work, Homework, and Leisure; labor supply in the context of the family. Text: chapter 7.
5. Quasi-Fixed Labor Costs: Non-wage labor costs; Overtime-pay premium; Concept of present value; General versus specific training. Text: chapter 5.
6. Investments in Human Capital: Cost-benefit analysis of investment in education; education and earnings; women and the acquisition of human capital. Text: chapter 9.
7. Production of Human Capital: Anatomy of the earnings profile. (Handout)
8. Signaling in the Job Market: article by Michael Spence on Job Market Signaling, Quarterly Journal of Economics 87, No. 3 (August 1973)
9. Compensating Wage Differentials: Hedonic theory of wages; occupational safety and health regulation; employee benefits. Text: chapter 8.
10. Why Do Dancers Smoke? Investments in human capital and individual time preference (Handout)
11. Discrimination Analysis: Earnings differences by gender and race; defining and measuring labor market discrimination; occupational segregation; models of market discrimination; statistical discrimination. Text: chapter 12.
12. Personnel/managerial economics: Incentive pay, long-term employment contracts, and CEO compensation. Text: chapter 11.