



Cornell University ILR School

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SPRING 2018

ECONOMICS OF WAGES AND EMPLOYMENT (ILR2400)

(TTh 10:10-11:25, Ives 109, 3 credits)

Course Description

This course applies microeconomic models to the characteristics and problems of the labor market. It develops the modern theory of labor market behavior, summarizes the empirical evidence that supports or contradicts each hypothesis and illustrates in detail the usefulness of the theory for public policy analysis. It also illustrates how labor market models can be used to help explain the presence of various institutions that exist in the labor market and to help understand various forms of non-market activity. Finally, it provides an opportunity for students to engage in econometric research projects early in their college careers.

Learning Outcomes

- By the end of the semester, you should be able to:
1. Analyze a proposed policies effects (intended and unintended) on employers' demand for labor
 2. Analyze a proposed policies effects on the supply decisions made by workers
 3. Analyze the change in market outcomes (wages and employment) that would likely be produced by proposed policy changes
 4. Analyze using principles of normative economics proposed policy changes effects on social welfare
 5. Have gained experience conducting empirical research and understand how economists test hypotheses
 6. Have learned how economic models can often be used to explain institutional characteristics that we observe and various form of nonmarket activity

Course Readings

The text for the course is Ronald G. Ehrenberg and Robert S. Smith, *Modern Labor Economics 13th edition* (Routledge, 2018). Students would be wise to read this book very carefully and to make sure that they understand the material in it by answering the review questions at the back of each chapter. A number of the questions on each of the in class exams will be (at least) similar to these questions. Answers to the odd numbered questions appear in the back of the book. Periodically I will discuss these types of problems in class and ask you to think about the correct way to answer them.

Economics is a discipline in which understanding a few key concepts is critical to the learning process. Keeping up with the readings and being an “active learner” is necessary to do well in the class. You should read each of the assigned text chapters before we discuss them in class so that you will come to each class with a sense of what the key concepts are to be covered that day. If there are things that you do not understand from the readings, please let me know at the start of the class. Then after each lecture, reread the assigned text chapters again.

In addition to the text, other readings that discuss points not covered in the text or present interesting examples of materials covered in the text are found on the reading list. A number of these were written by me. Each of these is available on the Blackboard course web site.

Course Requirements

Two in class examinations will be given during the semester and each will be worth 25% in the computation of your course grade. The final examination will be cumulative and be worth 30% of your final grade. A copy of an earlier year’s exam will be posted on the blackboard course web page a week or two before each exam.

To take full advantage of the previous year’s exams, first try to answer all the questions yourself. In answering each question, start by figuring out which concepts that we have discussed are the key ones needed to answer the question. Then, get together with a group of classmates and compare your answers to each question. If you all agree on the answer to the question, it is likely that your answer is correct. If you do not all agree discuss among yourselves until you converge on a single answer. Some, but not all of the previous year’s questions will appear on this year’s exams.

All students will also be expected to work in groups of up to four, on an empirical research paper. These papers, which will be worth 20% of your final grade, should summarize a policy issue; discuss previous research (if any) on the topic, and present original econometric analyses.

A list of suggested paper topics is attached. Please Email me with any additional topics that interest you by Tuesday February 6. I will email you a revised list of topics by Wednesday February 7. Email me your preference for topic and for the members of the class with whom you would like to work by Thursday February 8. I will notify you of your group assignments no later than Thursday February 15. Groups must meet with me no later than the first week in March and then regularly thereafter to make sure that their research is on target

Office Hours

My office is 271 Ives Hall. Office hours for the course will be Tuesdays and Thursdays from 11:30am to 12:45pm and by appointment at other times. Students should always feel free to contact me by telephone (5-3026) or by email (rge2@cornell.edu). My assistant is Sophia Harmon, (5-4424 or sah334@cornell.edu). Ms. Harmon “controls” my

calendar and she can make appointments for you to see me. The TA for the class is Caroline Webber (cmw258@cornell.edu). She will announce her office hours the first week of the semester on the blackboard course page.

Course Outline and Readings

- A. **Introduction:** The Nature of Labor Market Data and Models. Positive and Normative Economics. Pareto Optimality. Efficiency and Equity. Rationales for Government Intervention in the Labor Market. Labor Market Shortages and the Volunteer Army. Introduction/Review of Multiple Regression Analysis (2 days)

Ehrenberg and Smith, *Modern Labor Economics*, 13th ed. (henceforth *ES*), chapters 1 and 2 and the appendix to chapter 1.

Walter Y. Oi, "The Economic Cost of the Draft", *American Economic Review* 57 (May 1967): 39-62

- B. **Labor Demand:** Why Demand is Downward Sloping? Demand in the Long- and the Short-Runs. Wage Elasticities of Demand. Substitutes and Complements in Production and Gross Substitutes and Complements. Monopsony in the Labor Market. Labor Demand in the Nonprofit and Public Sectors. Who Bears the Burden of the Payroll Tax? Analyses of the Minimum Wage. Wage Subsidies and Employment Tax Credits. Frictions in the Labor Market-. (3 days)

ES chapters 3, 4 and 5 (pages 143-158) and the appendix to chapters 3.

Ronald G. Ehrenberg, "The Demand for State and Local Government Employees", *American Economic Review* 63 (June 1973): 366-377

- C. **Quasi –Fixed Labor Costs:** Employee Benefit Costs. The Hours/Employment Decision. The Wisdom of Raising the Overtime Pay Premium. Part-time Employment. Investments in Human Capital. Specific and General Training. Age Earning Salary Profiles. (2 days)

ES chapter 5, 159-176

Dora L. Costa, "Hours of Work and the Fair Labor Standards Act: A Study of Retail and Wholesale Trade, 1938-50", *Industrial and Labor Relations Review* 53 (July 2000): 48-66

- D. **Labor Supply and the Household Allocation of Time:** Labor force participation. Hours of work. Income and substitution effects in labor supply. Backward bending labor supply curve. Creating work incentives in social programs. Welfare reform. Earned income tax credit. Child care programs. Family labor supply decisions. Life

cycle labor supply decisions. The retirement decision. Social security and labor supply. Household allocation of time to church activity. (3 days)

ES chapters 6 and 7

Naada Eissa and Hilary W. Hoynes, “Behavioral Responses to Taxes: Lessons Learned from the EITC and Labor Supply”, *Tax Policy and the Economy* 20 (2006): 73-110

Ronald Ehrenberg, Randy Ehrenberg, Daniel Rees and Eric Ehrenberg, “School District Leave Policies, Teachers Absenteeism and Student Achievement”, *Journal of Human Resources* 26 (Winter 1991): 72-105

Corry Azzi and Ronald G. Ehrenberg, Household Allocation of Time and Church Attendance”, *Journal of Political Economy* 83 (February 1975): 57-86

- E. **Compensating Wage Differentials and Occupational Choice:** Theory of job matching. Compensating wage differentials for favorable and unfavorable job characteristics, Hedonic wage theory and the risk of injury. Occupational safety and health policy. The trade offs between wages and pensions, and wages and layoffs. The economics of criminal behavior (2 days)

ES chapter 8 and the appendix to chapter 8

W. Kip Viscusi, “The Value of Risks to Life and Health”, *Journal of Economic Literature* 31 (December 1993): 1912-1946

Ronald G. Ehrenberg, Paul J. Pieper and Rachel A. Willis, “Do Economics Departments with Lower Tenure Probabilities Pay Higher Faculty Salaries”, *Review of Economics and Statistics* 80 (November 1998): 503-512

- F. **Education and Investment in Human Capital:** Theory of investment in human capital. Social vs. private benefits and costs of investments. Post schooling investments in human capital and the shape of age-earnings profiles. Gender differences in earnings profiles. The signaling role of education. (2 days)

ES chapter 9 and the appendix to chapter 9

Dominic Brewer, Eric Eide and Ronald Ehrenberg, “Does it Pay to Attend an Elite Private College: Cross-Cohort Evidence on the Effects of College Quality on Earnings”, *Journal of Human Resources* 34 (Winter 1999): 104-123

Stacy Dale and Alan Krueger, “Estimating the Effects of College Characteristics over the Career Using Administrative Earnings Data”, *Journal of Human Resources* 49 (Spring 2014): 323-358

- G. Worker Mobility: Migration, Immigration and Turnover:** Mobility as a form of investment in human capital. Empirical predictions of the model. Importance of immigration to the United States economy. Immigration policies. Who wins and who loses from immigration. Job turnover and job matching. (1 day)

ES chapter 10

Raven Molloy, Christopher Smith, and Abigail Wozniac, "Internal Migration in the United States", *Journal of Economic Perspectives* 3 (Summer 2011): 173-196

Ronald Ehrenberg, Hirschel Kasper and Daniel Rees, "Faculty Turnover at American Colleges and Universities: Analysis of AAUP Data", *Economics of Education Review* 10 ((1991) Vol. 2): 99-110

- H. The Economics of the Employment Relationship-Pay and Productivity within the Firm:** The employment contract. Asymmetric information. Motivating workers. Pay for performance. Individual vs. group incentives. Efficiency wages. The sequencing of pay over the life cycle. Mandatory retirement. Tournament models and the winner-take-all phenomenon. (2 days)

ES chapter 11

Ronald G. Ehrenberg and Michael L. Bognanno, "Do Tournaments Have Incentive Effects", *Journal of Political Economy* 98 (December 1990): 1307-1324

Edward Lazear and Kathryn Shaw, "Personnel Economics: The Economist's View of Human Resources", *Journal of Economic Perspectives* 21 (Fall 2007): 91-114

- I. Gender, Race and Ethnicity in the Labor Market:** Earnings differences by gender, race and ethnicity. Theories of discrimination. Measuring discrimination. Federal programs to end discrimination. Comparable worth. (2 days)

ES chapter 12 and the appendix to chapter 12

David Neumark and Wendy A. Stock, "The Labor Market Effects of Race and Sex Discrimination Laws", *Economic Inquiry* 44 (June 2006):385-419

Joseph Price and Justin Wolfers, "Racial Discrimination Among NBA Referees", *Quarterly Journal of Economics* 125 (November 2010): 1859-1887

Ronald G. Ehrenberg et. al. "Do Trustees and Administrators Matter? Diversifying the Faculty Across Gender Lines" *Economics of Education Review* 31 (February 2012):9-18

- J. Unions and the Labor Market:** Models of union behavior-monopoly union and efficient contract models. Models of union growth. Bargaining theories and strike activity. Arbitration and public sector bargaining. Theory and estimates of union effects (1 day)

ES chapter 13 and the appendix to chapter 13

Orley Ashenfelter and George Johnson, “Bargaining Theory, Trade Unions and Industrial Strike Activity”, *American Economic Review* 59 (March 1969): 35-49

- K. Unemployment:** Stocks and flows in labor markets. Frictional, structural and demand-deficient unemployment. Models of job search and the unemployment insurance system. The natural rate of unemployment (2 days)

ES chapter 14

Henry Farber and Robert Valletta, “Do Unemployment Extended Unemployment Insurance Benefits Lengthen Unemployment Spells? Evidence from Recent Cycles in the U.S. Labor Market”. *Journal of Human Resources* 50 (Fall 2015): 873-909

- L. Inequality in Earnings:** Measuring inequality. Lorenz curves and Gini coefficients. Changes in inequality over time. Causes of change in earnings inequality. International comparisons. (1 day)

ES chapter 15 and the appendix to chapter 15

Richard J. Murnane and Frank Levy, “U.S. Earnings Levels and Earnings Inequality: A Review of Recent Trends and Proposed Explanations”, *Journal of Economic Literature* 30 (September 1992); 1333-1381

David Autor, Alan Manning and Christopher Smith, “The Contribution of the Minimum Wage to U.S. Wage Inequality Over Three Decades”, *American Economic Journal: Applied Economics* 8 (January 2016): 58-99

- M. Labor Market Effects of International Trade and Production Sharing (will not be discussed in class)**

ES chapter 16

Tentative Class Schedule*

<u>Date</u>	<u>Course Section/Event</u>
Thu. January 25	A: Introduction
Tue. January 30	A. Introduction
Thu. February 1	B: Labor Demand

Tue. February 6	B. Labor Demand
Thu. February 8	B: Labor Demand

Tue. February 13	C. Quasi-Fixed Labor Costs
Thu. February 15	C. Quasi-Fixed Labor Costs

Tue. February 20	No Class February Break
Thu. February 22	D: Labor Supply
Tue. February 27	IN CLASS EXAM (Sections A-C)
Thu. March 1	D. Labor Supply

Tue. March 6	D. Labor Supply
Thu. March 8	E. Occupational Choice
Tue. March 13	E: Occupational Choice
Thu. March 15	F: Human Capital Investment
Tue. March 20	F: Human Capital Investment
Thu. March 22	F. Human Capital Investment

Tue. March 27	G. Worker Mobility
Thu. March 29	IN Class Exam (Sections D-F)

Tue. April 3	No Class Spring Break
Thu. April 5	No Class Spring Break
Tue. April 10	H: Pay and Productivity
Thu. April 12	H: Pay and Productivity
Tue. April 17	I: Gender Race and Ethnicity
Thu. April 19	I: Gender Race and Ethnicity
Tue. April 24	J: Unions
Thu. April 26	K. Unemployment
Tue. May 1	K. Unemployment and L. Inequality in Earnings
Thu. May 3	Student Presentation of Papers/Review Session
Tue. May 8	Review Session and Final Remarks

*Final Exam Time and Place will be available on the Blackboard Course Page as soon as we learn it

SUGGESTED PAPER TOPICS

A major component of this course is a group research project that will lead to the submission of a research paper. These papers must include statistical analyses of data. You are free (and encouraged) to work in groups of up to four students on this project.

I have listed below a set of “suggested” topics, all of which derive from my current teaching and research interests, the economics of higher education. At the end of each topic, I indicate the section of the course to which the topic relates. These topics are “suggested” in the sense that I know that each is feasible to undertake. However, you are neither restricted, nor even encouraged, to work on these topics. They are illustrative of the types of projects that I have in mind. You are encouraged to suggest other topics that interest you that relate to the course. I will add those that I deem feasible to the list, and then circulate a revised topic list. I will then ask you to indicate your choice of topics and the members of the group in which you would like to work.

Once groups are formed, each group should meet with me sometime during the 4th or 5th week of the semester (preferably 4th) so I can help to get you started and we can establish what my expectations are for the paper. You should meet with me regularly during the semester to discuss your progress and any snags that you are encountering. The papers will be due on Friday April 27. If you submit a draft of the paper to me by April 10, I will provide comments to you by April 15, which will give you time to make some revisions. I will ask at least some groups to make brief presentations on their papers on Thursday May 3.

To address each topic adequately, you will need to have a familiarity with multivariate regression analysis and access to a statistical software package. Some of you have copies of a program from your statistics course. Others are available in the ILR Computer Lab. Finally, if you are very good at using *Excel* you may be able to do the whole project using it.

1. Each year average salary data is published in the AAUP magazine *Academe* for female and male faculty at each rank, by institution. The ratio of female to male salaries varies widely across academic institutions, as does the share of faculty that is female? Do these differences reflect discrimination against females? What are the factors that you might expect will lead to gender ratios in salaries and faculty numbers varying across institutions? Present econometric evidence that provide tests of your hypotheses (**Section I - Gender, Race and Ethnicity in the Labor Market**)
2. Salaries of individual faculty members at a number of public universities are now available on line. Choose one of these universities and several large departments - one that has relatively few female faculty and one that has a relatively large number of female faculty. Does the average salary of male and female faculty differ in these departments? Present econometric evidence on whether these

- gender differences continue to exist after one controls for experience, rank, and productivity. Are faculty in the heavily “male” department paid more, on average, than faculty in the heavily “female” department? If so, is this evidence of gender discrimination? **(Section I – Gender, Race and Ethnicity in the Labor Market)**
3. There are many ways to measure the research productivity of faculty- two are the number of citations to an individual’s published work and the number of his or her publications. Human capital models predict that the productivity of an individual should vary over the life cycle. What do life cycle productivity profiles actually look like for Cornell economist, sociologists, or psychologists? What are the reasons that at a point in time research productivity might vary across Cornell faculty members in a field? Present econometric evidence that confirms or does not confirm your hypotheses **(Section F – Investment in Human Capital)**
 4. In its *Yeshiva* decision, the Supreme Court effectively barred collective bargaining for faculty in private institutions of higher education. However, state laws governing public employees permit faculty bargaining in public institutions in a number of states. What determines whether faculty members in a public higher education institution are covered by collective bargaining? Do unionized faculty members earn more than comparable nonunion faculty? Provide econometric evidence to document your claims. **(Section J – Unions and the Labor Market)**
 5. Faculty/Student Ratios vary widely across colleges and universities in the United States. Faculty members are an input into the production of research and teaching in academia. The theory of the demand for labor suggests that higher the faculty salary level is the lower faculty employment should be at an institution. However, if one looks at the data, one observes that higher priced faculty tend to be located at institutions with the highest faculty/student ratios. How can one reconcile this with the theory of demand for labor? Using institutional level data estimate demand curves for faculty to see if, when properly specified, the demand for faculty is a downward sloping function of their salary levels. **(Section B- Labor Demand)**
 6. Over the last 30 years, earnings inequality has increased substantially in the United States. This has taken place not only for the workforce as a large, but also for workers with a given level of education. Have the average earnings of faculty in colleges and universities similarly increased in inequality? If they have, what are the factors that may have caused this growing inequality in earnings? Provide statistical evidence as to whether your hypotheses are correct **(Section K Earnings Inequality)**