

LABOUR ECONOMICS I ECONOMICS EC3344B-001

Department of Economics
Western University

Instructor's Name: Chris Robinson

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Office Hours: Friday 1.30-3.30

Classroom meeting time & location: Mon 9.30-10.30, Wed 9.30-11.30 UCC 58

Course website: <https://owl.uwo.ca/portal>

Undergraduate inquiries: 519-661-3507 SSC Room 4075 or econugrd@uwo.ca

Registration

You are responsible for ensuring you are registered in the correct courses. If you are not registered in a course, the Department will not release any of your marks until your registration is corrected. You may check your timetable by using the Login on the Student Services website at <https://student.uwo.ca>. If you notice a problem, please contact your home Faculty Academic Counsellor immediately.

Prerequisite Note

The prerequisite for this course is **Economics 2261A/B**

You are responsible for ensuring that you have successfully completed all course prerequisites, and that you have not taken an anti-requisite course. Lack of pre-requisites may not be used as a basis for appeal. If you are found to be ineligible for a course, you may be removed from it at any time and you will receive no adjustment to your fees. This decision cannot be appealed.

If you find that you do not have the course prerequisites, it is in your best interest to drop the course well before the end of the add/drop period. Your prompt attention to this matter will not only help protect your academic record, but will ensure that spaces become available for students who require the course in question for graduation.

Course Objectives:

The objective of the course is to provide students with the basic economic tools needed to understand and analyze how earnings are determined, how labour markets work and how various government policies may affect the labour market.

The basic topics of labour economics are: labour supply and demand, and the determination of earnings, and employment. The labour market, in which the levels of earnings and employment are determined, is widely regarded as the most important market in the economy. Labour share of GDP in developed economies is typically estimated at around two-thirds. Within this broad framework labour economics has traditionally concerned itself with a wide range of sub-topics: human capital theory as a major explanation for earnings determination; behaviour of labour market restrictions influencing wage and employment outcomes (unions, minimum wage laws, etc.); population theory as an important aspect of labour supply, especially for females; search theory as an explanation of unemployment. The tools of labour economics have also been applied to a wide variety of “social” topics such as marriage, fertility and discrimination because of their links to the labour market. They have also been used to evaluate a variety of government programs dealing with labour markets: unemployment insurance programs, welfare programs, training programs, mandatory firing notice programs, health regulations, and minimum wage laws.

Econ 3344 (Labour Economics I) will focus on human capital, both theory and evidence. The analysis of human capital is now at the centre of modern labour economics. Human capital theory and evidence is regarded as one of the major achievements of modern labour economics. The course will also cover the basic supply and demand analysis of traditional labour economics, including immigration, unions and minimum wage laws. In addition, the course will cover several topics in the “new labour economics,” most specifically, fertility and discrimination.

A marked feature of the tradition in labour economics has been the close link between theory and empirical work. In fact, a significant body of econometrics was stimulated by problems arising in labour economics involving so called “limited dependent variables” and “self-selection”. This course will reflect this tradition with a strong emphasis on the link between theory and empirical work. There will also be assignments involving empirical analysis of the type commonly encountered in labour economics using STATA software. Finally, there will also be extensive class discussion of the material. Students should be ready to ask, answer and discuss questions in class on the topics covered.

Course Learning Outcomes:

Students will learn how to analyze supply and demand behaviour in labour markets and the consequences for the determination of wages and employment.

Students will learn how to explain a wide variety of wage patterns, including wage variation across different individuals, across regions, across countries, across occupations and across demographic groups.

Students will be able to explain, using human capital models, why earnings for most individuals increase over their working lives and why the increase may be different for different individuals.

Students will learn how to analyze the effects of government policies, such as minimum wage laws, on labour markets.

Students will learn about econometrics models especially relevant to labour economics such as selection models and limited dependent variable models and will understand how to do empirical work in labour economics to provide evidence on various labour market topics using applications in the STATA statistical package.

Textbook:

This is a course covers many different topics, together with related empirical analysis, at the honors economics level. There is no suitable text at this level, so there is no formal textbook requirement. The classes will consist of lectures and discussion that will present the material in a self contained way. In the class lectures the key features of the theory will be linked to, and derived explicitly from, the ideas and economic analysis students will have already covered in the pre-requisite micro-economic course. It is essential that students attend all classes in order to get appropriate coverage and understanding of the material for the course. To help students assess how well they are understanding the material there will be a number of in class, self- evaluated tests. These are in the form of a short quiz. They are not part the course grade. While there is no assigned textbook, background to much of the material is available in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition. This background material, however, is not a substitute for the material that will be covered in class.

Grading:

Grading will be based on a midterm exam (25%) assignments (25%) and a final exam (50%). There will be two assignments of varying length given at approximately even spacing across the course. **To receive a grade, assignments must be handed in by the due date.**

Topics

1. *Labour Supply and Fertility*

Students should consult Chapters 2-4 from in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition. However, this reading should be considered as background, rather than as a substitute for the class lectures and discussion. The material for these topics will be presented in the class lectures at a higher mathematical level and will cover alternative models, including household production. A detailed background for further reading on labour supply for interested students is available in:

Killingsworth, M., *Labor Supply*, Cambridge, 1983.

Blundell, R. and T. MaCurdy, "Labor Supply: a Review of Alternative Approaches" in O. Ashenfelter and D. Card, *Handbook of Labor Economics*, Vol. 3A, North Holland, 1999.

Blundell, R., MaCurdy, T., and C. Meghir, "Labor Supply Models: Unobserved Heterogeneity, Non-participation and Dynamics" Chapter 69 in J. Heckman, *Handbook of Econometrics*, Vol. 6A, Elsevier BV, 2007.

2. *Topics in Labour Econometrics*

For this part of the course we will discuss some of the basic econometric tools used in Labour Economics to test the theories on various kinds of data. This is not primarily an econometrics course, so there is no specific econometrics text assigned. However, you should review any material you have covered in previous statistics or econometrics courses that dealt with regression, limited dependent variables, instrumental variables, difference-in-difference techniques and sample selection bias. It is not a pre-requisite that you know all this material: the class will cover the material in a self contained way. However, it will be helpful for the discussion if you have experience with some of these techniques.

For some background students should read the Appendix and Research design section in Chapter 1 in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition.

3. *Labour Demand*

The labour demand material will be mainly in class material. However, students may also review Chapter 5: Demand for Labour in Competitive Labour Markets, in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition. Basic references for further reading for interested students are:

Hamermesh, D.S., "The Demand for Labour in the Long Run," O. Ashenfelter and R. Layard, *Handbook of Labor Economics*, North Holland, 1987.

Hamermesh, D.S., *Labor Demand*, Princeton University Press, 1993.

4. *Human Capital*

The theory and empirical evidence on human capital will be presented in lectures in class. Students should also read the following:

Ben-Porath, Y., "The Production of Human Capital and the Life Cycle of Earnings," *Journal of Political Economy*, (August) 1967.

Bowlus, Audra, and Chris Robinson. "Human Capital prices, Productivity and Growth." *American Economic Review*, Vol. 102, 2012.

Mincer, J., *Schooling, Experience, Earnings*, Columbia, 1974.

Kuruscu, B. "Training and Lifetime Income" *American Economic Review*, Vol. 96, 2006, pp.832-846.

Rosen, S. and R.J. Willis, "Education and Self-Selection" *Journal of Political Economy*, Vol. 87, 1979, pages S7-36.

Neal, Derek "Industry-Specific Human Capital: Evidence from Displaced Workers" *Journal of Labor Economics*, Vol 13, 1995, pages 653-77.

Currie, Janet "Early Childhood Education Programs" *Journal of Economic Perspectives*, Spring 2001, Vol 15, Number 2.

Poletaev, Maxim, and Chris Robinson, "Human Capital Specificity: Evidence from the Dictionary of Occupational Titles and Displaced Worker Surveys, 1984-2000." *Journal of Labor Economics*, Vol 26, 2008, pages 387-420.

Robinson, Chris. "Occupational Mobility, Occupation Distance, and Specific Human Capital." *Journal of Human Resources* Vol 53 (Spring 2018): 513-551.

Students may also consult in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition, Chapter 9 for further background on the basic ideas and uses of human capital theory.

5. *Wage and Employment Determination: Human Capital, Labour Supply and Labour Demand Put Together*

This section puts together the previous components of supply, demand and human capital to understand how wages and employment are determined in standard economic models. Detailed emphasis will be placed on the so called “canonical model” of wages and employment. The coverage in class will be self contained but students should also read parts of the following readings as directed in class.

Acemoglu, Daron and David Autor, “Skills, Tasks and Technologies: Implications for Employment and Earnings,” Chapter 12 in *Handbook of Labor Economics*, Vol. 4b, Elsevier, 2011,

Card, David and Thomas Lemieux, “Can Falling Supply Explain the Rising Return to College for Younger Men? A Cohort Based Analysis.” *Quarterly Journal of Economics* CXVI (2001): 705-746.

Katz, L.F. and K. Murphy, “Changes in Relative Wages, 1963-87: Supply and Demand Factors.” *Quarterly Journal of Economics* 107 (1992): 35-78.

Students may also consult in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition, Chapter 7 for further background on wage determination in competitive labour markets.

6. *Discrimination*

The material on discrimination will be presented in a self contained form in the class lectures. Students should also read:

Neal, Derek A., and William R. Johnson, “The Role of Premarket Factors in Black-White Wage Differences.” *Journal of Political Economy* 104 (1996): 869-895.

“Discrimination in Product, Credit and Labor Markets” *Journal of Economic Perspectives*, Spring 1998. (Make sure you also read the “comments” from Arrow and Heckman.)

7. *Unions, Minimum Wages and Non-wage Benefits*

For background reading on these topics Chapters 14, 15 and 16 in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition is useful. For the minimum wage material, students should read:

“Review Symposium,” in *Industrial and Labor Relations Review* 48 (1995): 827-849.

Baker, M., Benjamin, D., and Stanger, S., “The Highs and Lows of the Minimum Wage Effect: A Time-Series-Cross-Section Study of the Canadian Law.” *Journal of Labor Economics*, April 1999, pp: 318-350.

Clemens, Jeffrey, and Michael Wither, “The Minimum Wage and the Great Recession: Evidence from the Current Population Survey.” Working Paper, September 2016.
(<http://econweb.ucsd.edu/~j1clemens/pdfs/ClemensWitherMinimumWageGreatRecession.pdf>)

Jardim, Ekaterina, *et al.* “Minimum Wage Increases, Wages and Low Wage Employment: Evidence from Seattle.” NBER Working Paper No. 23532, 2017.

Please Note
Department Policies for 2018-2019

Remember that the University expects all students to take responsibility for their own Academic Programs. Students should also check their registration to ensure they are enrolled in the correct courses.

1. Guidelines and policies for the Faculty of Social Science and the Department of Economics are posted online in the current Western Academic Calendar at:
<http://westerncalendar.uwo.ca>.
2. Students must familiarize themselves with the “Rules of Conduct for Examinations”
http://www.uwo.ca/univsec/pdf/academic_policies/exam/administration.pdf.
3. **Cheating as an academic offence:** Students are responsible for understanding what it means to “cheat”. The Department of Economics treats cheating incidents very seriously and will investigate any suspect behavior. Students found guilty will incur penalties that could include a failing grade or being barred from future registration in other Economics courses or programs. The University may impose further penalties such as a notation on an official academic transcript, suspension or expulsion.
4. **Plagiarism:** Students must write their essays and assignments in their own words. When taking an idea/passage from another author, it must be acknowledged with quotation marks where appropriate and referenced with footnotes or citations. Plagiarism is an academic offence (see Scholastic Discipline for Undergraduate Students in the Western Calendar at http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_20).

Western University uses software to check for plagiarism and students may be required to electronically submit their work. Those found guilty will be penalized as noted in point 3.

5. It is a Department of Economics policy that **NO** assignments be dated, stamped or accepted by staff. Students must submit assignments in class or to the instructor during office hours.
6. When appealing a mark, students should refer to the Student Academic Appeals section in the current Western Academic Calendar at:
http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_14
Please note the relevant deadlines.

The Department will not consider an appeal unless an attempt has been made to settle the matter with the instructor first. Students who remain dissatisfied with the outcome may proceed with a written appeal (e-mails are not acceptable) to the Undergraduate Director in Economics, stating the reasons for their appeal. A checklist is provided at:
http://economics.uwo.ca/undergraduate/program_counselling/responsibilities_policies.html#appeals.

7. Systematic adjustments of a class grade distribution (either up or down) can occur in Economics courses. The fact that grades have been adjusted is **not** grounds for an appeal.
8. Note the following add and drop deadlines:

Deadline to add a second term half course:
Deadline to drop a second term half course:

Tuesday January 15, 2019
Thursday March 7, 2019

9. Faculty of Social Science policy states that oversleeping or misreading an exam schedule is **NOT** grounds for a makeup. This rule applies to midterm and final exams in the Department of Economics.

Policy Regarding Makeup Tests and Final Examinations

*Academic accommodation will **not** be granted automatically on request. Students **must** demonstrate by documentation that there are **compelling** medical or compassionate grounds before academic accommodation will be considered.*

Students who proceed to write a test or examination must be prepared to accept the mark. Rewriting tests or examinations, or having their value reweighted on a retroactive basis, is **not** permitted. Students must also book travel arrangements **AFTER** final exam dates have been posted as they must not conflict with test or final exams.

Unless medically incapable of doing so, students must notify their instructor prior to the test date or at least within **24 hours** when requesting a makeup exam. Failure to follow this procedure may result in denial of academic accommodation and a grade of zero. Students should also set up an appointment as soon as possible to meet with their instructor. If the instructor is not available, send an email message, copying the Undergraduate Coordinator at econugrd@uwo.ca. **Notifying instructors of a missed exam does not automatically entitle students to a makeup.**

Students who seek a makeup exam must also provide supporting medical or other relevant documentation that their absence from a scheduled test or exam is beyond their control. Documentation should be submitted to the Academic Counselling Office of the student's *home* Faculty **as soon as possible (preferably within 24 hours of the scheduled test)**. Failure to follow this procedure may result in denial of academic accommodation and a grade of zero. If the documentation submitted is not acceptable, students will receive a zero for the missed test.

For personal illness, students may consult Student Health Services and request a Student Medical Certificate from the physician. If assessed by an off-campus doctor, students must obtain a certificate from his/her office at the time of the visit. The off-campus medical certificate form must also be used and can be found at:

http://www.uwo.ca/univsec/pdf/academic_policies/appeals/medicalform.pdf.

Notes stating "For Medical Reasons" are not considered sufficient.

For religious or compassionate circumstances, students should ask their Academic Counsellor what documentation to provide. If documentation is judged sufficient, the Academic Counsellor will issue a Recommendation for a Special Examination (a single form for midterms or a triple-color form for final exams). Once students have this form, they must contact their instructor as soon as possible to make arrangements. Even if approved by their Academic Counsellor, there is no guarantee that students will be allowed to write the makeup test/exam.

For final examinations, students need to seek permission from their *home* Faculty Counsellor, Instructor, and the Department Undergraduate Director. Failure to follow this procedure may result in a grade of zero. Students must ensure that the Special Examination form has been signed by the Instructor and Department Undergraduate Director and that the form is returned to the Academic Counselling Office for approval without delay. If approved, makeup examinations will be written within one month of the end of the exam period.

Policies Regarding Academic Accommodation

The Faculty of Social Science's policies regarding academic accommodation is found at http://counselling.ssc.uwo.ca/procedures/having_problems/index.html.

"Academic Rights and Responsibilities" are also outlined in the Western Calendar at <http://westerncalendar.uwo.ca/PolicyPages.cfm?PolicyCategoryID=1&command=showCategory&SelectedCalendar=Live&ArchiveID=>. Claiming that "you didn't know what to do" is not an acceptable excuse for not following the stated procedures.

Policy Regarding Class Attendance

If the instructor deems a student's class attendance as unsatisfactory, that student may be prohibited from writing the final examination. If there is intent to make use of this University policy, the student will be notified in writing.

Statement on Mental Health and Support Services

Students under emotional/mental distress should visit http://uwo.ca/health/mental_wellbeing/ for more information and a complete list of resources on how to obtain help.