Wages and the Labor Market (Econ 450)

TR 9:30 - 10:45 am, 1313 Sterling Bldg.

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I. Basic Goals:
The object is to provide students with a detailed outline of the basics of labor economics. I will spend most of the time going through the theory and ideas that form the fundamentals of labor economics. However, it is important that students are aware of the simple facts of labor market in the US. Using the theory and facts, it should be possible to evaluate labor market policies.

II. Prerequisite: The course is designed for economics majors and others who are already seriously interested in economics. Economics 301 is a prerequisite.

III. Evaluation:
There are two methods used to calculate the course grade; I will choose for you at the end of the term whichever method gives you the higher grade. Method 1 is designed to reward students who show consistent progress throughout the course, while Method 2 rewards those students who show improvement over the semester.

Method 1:
Quizzes 10%
Homework and participation 10%
First midterm 20% Date: Oct. 5, 2010 (s.t. change)
Second midterm 25% Date: Nov. 9, 2010 (s.t. change)
Final 35% Date: 7:45-9:45 am, Dec. 17, 2010

Method 2:
Quizzes 10%
Homework and participation 10%
First midterm 15% Date: Oct. 5, 2010 (s.t. change)
Second midterm 20% Date: Nov. 9, 2010 (s.t. change)
Final 45% Date: 7:45-9:45 am, Dec. 17, 2010

You can also use the 4th edition, which is much cheaper, and the content is much the same.

V. Course outline:
My lecture will be based on the textbook, highlighting fundamentals of labor economics that students should grasp. I plan to cover the following topics, but changes could be made, subject to the progress of the course.

1. The basics
   The subject of labor economics
   Theory and facts

2. Labor Supply
   (1) The basic static individual labor supply
       The labor/leisure choice and indifference curve
       The budget constraint
       The hours of work decision
       Income and substitution effects
       Individual labor supply
       Effects of taxes and subsidies
   (2) Extensions
       Life cycle labor supply
       Labor supply over business cycle
       Retirement
       Family labor supply
       Fertility and labor supply

3. Labor Demand
   Inputs and the production function
   Employment decision: short-run and long-run
   Elasticity of substitution
   Derived demand
   Effects of taxes and subsidies

4. Labor market equilibrium
   Equilibrium in the competitive labor market
   Non-competitive labor markets: monopsony and monopoly
   Effects of taxes and subsidies

5. Wage differentials
   The hedonic wage function
   Labor supply and risk
   Safety and health regulations

6. Human capital
   Education and income
   Present value calculations
   Costs and returns to schooling
   Training
   Age-earning profile
Policy

7. Wage structure
   Earning distribution
   Why do wages differ?
   Changes in the earning distribution
   Intertemporal income distribution

8. Labor Mobility
   Mobility and migration
   Immigration in the US
   Models of immigration
   Benefits and costs of immigration
   Immigration policy

9. Discrimination
   Discrimination in the US
   Employer discrimination
   Customer discrimination
   Statistical discrimination
   Measuring discrimination
   Policy

10. Labor unions
    The decline of unions in the US
    Models of Unions
    Union wage effect
    Strikes

11. Work incentives
    Piece rates and time rates
    Tournaments
    Executive compensation
    Efficiency wages

12. Unemployment
    Unemployment in the US
    Job search
    Steady-state unemployment
    Changes in UI payments
    Implicit contracts

VI. Web components: Lecture notes, homework, answer keys and other relevant materials will be posted on the Econ 450 course site.
http://ssc.wisc.edu/~cfu/teaching.html
VII. How to prepare for Econ 450?
   1. Skim the assigned reading before lecture (if any)
   2. Print out the lecture notes, which will be posted after each class, and digest the materials covered in class. However, taking lecture notes in class is highly suggested.
   3. Do the homework: THIS IS THE BEST WAY to guarantee good grades in exams! If you can handle the homework well, you stand a good chance to win in the exam! Moreover, I may, from time to time, ask volunteers or pick some students at random to solve some of the homework questions in class. After the answer key is posted, students should go over the homework again.
   4. Do (suggested) additional exercises at the end of each chapter.
   5. Edit your lecture outline to create a study sheet for each chapter.

VIII: Policies:
Read the departmental policies at:
http://www.ssc.wisc.edu/~munia/Undergraduate/MisconductSyl.doc