

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.

Method1:

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

Method2:

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

IV. Textbook (required): Labor Economics, George J, Borjas (McGraw-Hill 5th edition)
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>