

LABOUR ECONOMICS - THEORY

ECONOMICS EC2155A-001

Department of Economics
Western University

Instructor's Name: Chris Robinson

September 2017

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Office Hours: Wed 2.30-3.30, Friday 1.00-2.00
Classroom meeting times & location: Mon, Wed, Fri 10.30-11.30 B&GS 0165

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 2150A/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 Description:

The objective of the course is to provide students with an understanding of how labour markets work, how earnings and employment are determined, 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, discrimination and crime 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 2155 (Labour Economics - Theory) will begin with the basic supply and demand analysis of labour markets. Following this, the focus of the course turns to a study of human capital, both theory and evidence on the predictions of the theory. 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, including the effects of unions and minimum wage laws in the labour market. In addition, the course will cover several topics in the “new labour economics,” including fertility and discrimination.

A marked feature of the tradition in labour economics has been the close link between theory and empirical work. This course will reflect this tradition with a strong emphasis on the link between theory and evidence for the theory provided by empirical work. There will also be assignments using real data in simplified empirical analysis to examine some evidence using STATA software. Prior familiarity with STATA and regression analysis will be helpful, but is not required. 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 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 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 how to do simple empirical work in labour economics to provide evidence on various labour market topics.

Textbook:

The text for the course is Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th

edition. While the text covers the basic topics in the course, the class lectures will go further, covering other material and deriving results in different ways depending on student input. 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. Reading the text is **not** sufficient to acquire a full understanding of all the material that will be covered in class, especially the material on human capital and the empirical work.

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 for an assignment it must be handed in by the due date.**

Topics

Chapter 1 in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition provides an overview of the subject of Labour Economics. The specific topics covered in the course are listed below. The introduction to the course in the first lecture will provide a road map and linkages for these topics. Students should keep in mind this road map which will be updated periodically during the term.

1. *Labour Supply and Fertility*

Chapters 2-4 in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition. A detailed background for further reading on labour supply for interested students is available in:

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

The material on fertility will be linked to labour supply and covered in a self-contained way in class lectures.

2. *Evidence and 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 course has no formal econometrics pre-requisite so the discussion will be largely non-technical, emphasizing the intuition behind the methods labour economists have used to provide evidence. Useful background reading is the Appendix to Chapter 1 in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition, and the section on Research Design.

3. *Labour Demand*

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 covers part of the material. The full required material will be presented in class. A basic reference for further reading for interested students is:

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 Chapter 9 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 supplementary, rather than as a substitute for the class lectures and discussion.

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, and discusses some evidence and some important econometric issues such as sample selection bias. Students should also read Chapter 7 in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition.

6. *Discrimination*

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

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

and Chapter 12 in Dwayne Benjamin, Morley Gunderson, Thomas Lemieux and W. Craig Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, 8th edition.

7. *Unions, Minimum Wages, Non-Wage Benefits*

For background reading on these topics students should consult Chapters 14 and 15 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 topic, students should read:

Brown, C., "Minimum Wage Laws: Are They Overrated?" *Journal of Economic Perspectives* 2 (1988): 133-147.

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

Provisional Schedule

The provisional dates for the midterm and assignments are as follows:

Assignment #1 Handed out Wednesday September 27; due in class Friday October 6

Midterm Wednesday October 25

Assignment #2 Handed out Wednesday November 8; due in class Friday November 17

Please Note
Department Policies for 2017 – 2018

Remember that the University expects all students to take responsibility for their own academic Programs. Also remember to check your registration to make sure you 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://westerncalendar.uwo.ca/2017/pg136.html>.
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 your official academic transcript, suspension or expulsion.
4. **Plagiarism:** Students must write their essays and assignments in their own words. Whenever students take an idea or a passage from another author, they must acknowledge it by using quotation marks where appropriate and referencing with footnotes or citations. Plagiarism is a major academic offence (see Scholastic Offence Policy in the current UWO Academic Calendar at <http://westerncalendar.uwo.ca/2017/pg113.html>).

The University of Western Ontario uses software to check for plagiarism and students may be required to submit their written work in electronic form. Those found guilty will have penalties imposed as noted in point 3.

5. It is Department of Economics policy that **NO** assignments be dated, stamped or accepted by staff. Students are responsible for submitting assignments in class or to the instructor during office hours.
6. When appealing a mark, students should refer to the University's Procedures in the current UWO Academic Calendar (<http://westerncalendar.uwo.ca/2017/pg112.html>). Please note the relevant deadlines.

The Department will not consider any appeal unless an attempt has been made to settle the matter first with your instructor. If after this discussion you remain dissatisfied with a grade or other decision, you may proceed with a written appeal (e-mails are not acceptable) to the Undergraduate Director in Economics, stating the reasons for your appeal. A useful form and 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:

Last day to **add** a first term half course:
Friday, September 15th, 2017

Last day to **drop** first term half course without academic penalty:
Monday, November 13th, 2017

9. Faculty of Social Science policy states that oversleeping or misreading an exam schedule is not an excuse for a make-up. This rule applies to all mid-term tests and final exams in the Department of Economics.

Policy Regarding Makeup Tests and Final Examinations

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

If you decide to write a test or an examination, you must be prepared to accept the mark you earn. Rewriting tests or examinations, or having the value of the test or examination reweighted on a retroactive basis, is **not** permitted. Book airline flights after you know the dates of your final examinations. Airline flights must not conflict with test or final exams.

If you are requesting a makeup test for a midterm or a final examination, unless medically incapable, notify your instructor by email or phone, preferably prior to the scheduled date of the test, but definitely within **24 hours** of the date of the test or exam. Failure to follow this procedure may result in denial of a request for academic accommodation or result in a grade of zero. Set up an appointment as soon as possible to meet personally with your instructor. If the instructor is not available, you may send an email message, copying the Undergraduate Coordinator at econugrd@uwo.ca (Social Science Room 4075). **Notifying your instructor of a missed test or exam does not automatically entitle you to a makeup test.**

Students who seek a makeup test or examination must provide medical or other relevant verification that their absence from a regularly scheduled test or examination is beyond their control. Documentation must support your reasons. Medical documentation should be given to the Academic Counselling Office of your *home* Faculty **as soon as possible (preferably within 24 hours of the test)** if you know you may not be able to write your final examination on the scheduled day and time. Failure to follow this procedure, or to provide supporting documentation, may result in denial of a request for academic accommodation or result in a grade of zero. If your documentation is not acceptable, you will be given a zero for the missed test.

For personal illness, if you consult Student Health Services regarding your illness or personal problem, you should request a Student Medical Certificate from the physician. If you were seen by an off-campus doctor, obtain a certificate from his/her office at the time of your visit. The off-campus medical certificate form must 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 any other circumstances, if you are not sure what documentation to provide, ask your Academic Counsellor. If your 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 examinations). Once you have this form, contact your instructor as soon as possible to make arrangements. Even if approved from your home faculty Academic Counsellor, there is no guarantee that you will be allowed to write the makeup test and exam.

For final examinations, you need permission from your *home* Faculty Counsellor, your instructor, and the Department Undergraduate Director. Failure to follow this procedure may result in an examination grade of zero. You 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. Make-up final examinations, if permitted, will be written within one month of the end of the exam period.

Policies Regarding Academic Accommodation

Information about the Faculty of Social Science's policies regarding academic accommodation is found on its website at <http://counselling.ssc.uwo.ca/procedures/havingproblems.asp> or in Social Science Room 2105. Your "Academic Rights and Responsibilities" are also outlined in the current UWO Calendar at <http://westerncalendar.uwo.ca/2017/pg111.html>. 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 your instructor views your class attendance as unsatisfactory, you can be prohibited from writing the final examination. If there is intent to make use of this University policy, you will be notified in writing.

Statement on Mental Health and Support Services

If you or someone you know is experiencing emotional/mental distress, there are several resources here at Western to assist you. Please visit <http://www.uwo.ca/uwocom/mentalhealth/> for more information and a complete list of resources, as well as how to obtain help.