MACQUARIE
UNIVERSITY ~ SYDNEY

College of Commerce
Division of Economic and Financial Studies
Economics Department

Unit Outline

ECON240 Labour Market Economics

Semester One 2003

STAFF AND ADMINISTRATIVE DETAILS

Michael Dobbie, (Unit Coordinator) Room C5C-374, Extn 8502, email mdobbie@efs.mq.edu.au

Craig MacMillan, Room C5C-312, Extn 7290, email cmacmill@efs.mq.edu.au

LECTURE TIMES

TUESDAY: 2pm to 4pm in E7BT2

TUTORIALS

Six, one hour tutorials are scheduled. The tutorial times and locations are:

Tuesday: 12 noon.-1pm. in W6B320
Tuesday: 4 p.m.-5 pm. in W6B325

ASSESSMENT

Assessment will be based on the following **FOUR** activities. Students must satisfactorily complete **ALL** four activities to be eligible to pass this unit.

ACTIVITY 1:
MULTIPLE CHOICE EXAM (10%)
The Exam will be held on **April 8** during the normal lecture time.

ACTIVITY 2:
ESSAY (15%)

One essay, not exceeding 1500 words in length should be submitted no later than **7.00pm** on **Tuesday May 20.** Essays are to be placed in the Econ240 box in ERIC. A photocopy of your essay should be retained. A list of student identification numbers for all students from whom an essay has been received will be posted outside ERIC within 24 hours of the submission date. You must check this list immediately. If your number is not on the list, but you have submitted an essay, contact Michael Dobbie immediately. If you do not follow this procedure then you cannot claim at the end of the year that your essay was submitted but not returned to you.
Essay question to be advised in separate handout. However the question will involve the tournament model of executive compensation. This model is particularly topical given several recent high profile cases in which executives have received very generous remuneration packages and termination payments.

ACTIVITY 3:
MULTIPLE CHOICE EXAM (10%)
The Exam will be held on **May 27** during the normal lecture time.

ACTIVITY 4:
FINAL EXAMINATION (65%)
An end of unit two hour written examination to be taken during the mid year examination period. The examination will cover material drawn from all parts of the unit's subject matter.

NOTE

There are no supplementary exams held for the within semester multiple choice tests A supplementary exam will only be granted for the end of year examination under exceptional circumstances.

LECTURE/TUTORIAL/ ASSESSMENT SCHEDULE

Lecture No.	Date	Lecturer	Tutorial Number & Tutor	Assessment Dates
1	March 4	Craig Macmillan		
2	March 11	Craig Macmillan	1 CM	
3	March 18	Craig Macmillan	2 CM	
4	March 25	Craig Macmillan	3 CM	
5	April 1	Craig Macmillan		
6	April 8	**Multiple Choice Exam 10%**		**Multiple Choice Exam 10%**
	April 15	RECESS		
	April 22	RECESS		
7	April 29	Michael Dobbie		
8	May 6	Michael Dobbie	4 MD	
9	May 13	Michael Dobbie		
10	May 20	Michael Dobbie		**Essay Due 6.00p.m. 15%**
11	May 27	**Multiple Choice Exam 10%**		**Multiple Choice Exam 10%**
12	June 3	Michael Dobbie	5 MD	
13	June 10	Michael Dobbie	6 MD	

UNIT OUTLINE

The focus of this unit is upon the use of economic theory to analyse and evaluate the operation of labour markets. Particular emphasis will be placed upon the various, often competing, explanations that have been proposed to explain labour market phenomena. Topics covered will include; short and long run labour supply and demand, internal labour markets, personnel economics, the theory of compensating differentials, the employment relationship, the impact of employment protection legislation and minimum wage laws, unemployment and earnings distribution.

LECTURE PROGRAM AND READING GUIDE

RECOMMENDED TEXT

Kaufman, Bruce & Hotchkiss, Julie (2003) (6th ed) *The Economics of Labor Markets*, Mason (OH): South-Western (Thomson Learning).

The Co-op bookstore has this book and it is recommended that students purchase a copy.

The following books are referred to in the readings accompanying the lecture and tutorial program. Also many of the following are alternative labour market textbooks which students may wish to consult for assistance in understanding the lecture material.

ADDITIONAL REFERENCES

ACIRRT (1999) *Australia at Work: Just Managing?* Prentice Hall, Australia.

Norris, K. (2000) (5th ed) The Economics of Australian Labour Markets. Longman, Australia.

Whitfield, K. & Ross, R. (1996)(2nd ed), *The Australian Labour Market.* Harper Educational, Australia.

Ehrenberg , R.G. & Smith, R.S. (1994)(5th ed). *Modern Labor Economics Theory and Policy*. HarperCollins College Publishers, New York.

Elliott, R. (1991), *Labor Economics: A Comparative Text*. McGraw Hill, London.

Lazear, E. (1998) Personnel Economics for Managers. Wiley, New York.

McConnell, C., Brue, S.L. & Macpherson, D. (1999) *Contemporary Labor Economics*. McGraw Hill, New York.

These references and all the others listed as lecture and tutorial readings are available in the Reserve section of the library. Additional references may be recommended in lectures. These will be placed in ERIC.

LECTURE 1:
INTRODUCTION TO THE STUDY OF LABOUR MARKETS

Topics covered include; the distinguishing features of labour markets, and a brief statistical overview of the Australian labour market.

Readings:
Kaufman & Hotchkiss Ch.1- Essential
Norris Ch 1
Whitfield & Ross Ch 1
Jacoby, S. M. (1990) "The New Institutionalism: What Can it learn from the Old?", *Industrial Relations*, 29(2), 316-340.
ACIRRT (1999) Ch 1& 2
EPAC(1996) "The Changing Australian Labour Market: An Overview" in, *The Changing Australian Labour Market*, Commission Paper no. 11 AGPS, Canberra.
Garvey, G. T. (1994) " Why labour is not different?" *Agenda*, 1(1), pp 5-12
Boyer, G. R. & Smith, R. S. (2001) "The Development of the Neoclassical Tradition in Labor Economics" *Industrial and Labor Relations Review*, 54(2), 199-223.
Australian Bureau of Statistics (ABS) (2002) *Labour Statistics in Brief Australia* cat. no. 6104.0
Rebitzer, J. B. (1993) "Radical Political Economy and the Economics of Labour Markets, *Journal of Economic Literature*, vol.XXXI(Sept.), 1394-1434.
Kerr, C. & Staudohar, P.D (eds) (1994) *Labor Economics and Industrial Relations: Markets and Institutions.* Cambridge M.A.: Harvard University Press. A good account of institutionalist thought.
O'Hara, P. A. (ed) (1999) *Encyclopedia of Political Economy* (2 Volumes). London: Routledge. This is a very readable encyclopedia that students should consult for good SHORT introductions to key labour market concepts – for example "labour markets and market power", "labour and labour power" and "institutions". [Located in the Reference section, level 2, HB61.E554].
Hodgson, G. M., Samuels, W. J., & Tool, M. R. (eds) (1994) *Elgar Companion to Institutional and Evolutionary Economics* (2 Volumes). Brookfield VT: Edward Elgar. This is also a good dictionary of economic terms from an institutional perspective. [HB99.5.E45]

LECTURE 2:
EMPLOYEE MOTIVATION AND COMPENSATION.

This topic looks at issues surrounding the control of worker effort via payment schemes and other mechanisms. More specifically, piece rates versus time rates, performance pay, and the theory of deferred-payment schemes.
Readings:
Kaufman & Hotchkiss Ch 10
Norris pp 156-58.
Paul Milgrom & John Roberts (1992) *Economics, Organization and Management*. Englewood Cliffs: Prentice Hall. Ch.12 &13.
Ehrenberg & Smith Ch.11
Lazear, E. P. (1998) *Personnel Economics for Managers.* New York: Wiley. Chs 5, 9 & 11
Lazear, E. P (1999) "Personnel Economics: Past Lessons and Future Directions", *Journal of Labor Economics*, 17(2), 199-236.
Lazear, E. P (2000a) "The Future of Personnel Economics", *Economic Journal*, 110(Nov.), F611-639.
Lazear, E. P (2000b) "Performance Pay and Productivity", *American Economic Review*, 90(5),1346-61.

The Economist (1999) "A Survey of Pay: The Best …and the Rest" *The Economist*, 8/05/99.
Tomer, J. F. (2001) "Understanding High-Performance Work Systems: The Joint Contribution of Economics and Human Resource Management", *Journal of Socio-Economics*, 30(2001), 63-73

LECTURE 3:
LABOUR SUPPLY IN THE SHORT-RUN.

Topics covered include; the neoclassical theory of labour supply, applications and criticisms of the theory and a look at the evidence on the Australian labour supply.

Readings:
K & H Ch.2 & 3
Norris Ch 2
EPAC (1996a) Ch.2- For a statistical review of labour supply in Australia.

LECTURE 4:
HUMAN CAPITAL THEORY AND THE QUALITATIVE DIMENSION OF LABOUR SUPPLY

This topic looks at the human capital account of investment in education and on-the-job training. It also explores the education/earnings relationship from both an empirical and theoretical perspective.
Readings:
K & H Ch.7
Norris Ch 4
Mincer, J. (1994) "Human Capital: A Review", in Kerr, C. & Staudohar, P.D (eds) *Labor Economics and Industrial Relations: Markets and Institutions.* Cambridge M.A.: Harvard University Press.
EPAC(1996) Ch.2, pp30-34
Myra H. Strober (1990) "Human Capital Theory: Implications for HR Managers", *Industrial Relations*, vol. 29, no. 2, pp214-39.
Bowles, S. & Gintis, H. (2002) "Schooling in Capitalist America Revisited", *Sociology of Education*, 75 (Jan.), 1-18.
Hutchens, R. M. (1989) "Seniority, Wages and Productivity: A Turbulent Decade", *Journal of Economic Perspectives*, 3(4), 49-64.

LECTURE 5:
HUMAN CAPITAL THEORY (cont)
LABOUR DEMAND: SHORT RUN

This topic presents and critically evaluates the neoclassical theory of labour demand in the short-run. Modified models of labor demand are also considered. Finally, some of the empirical evidence on the demand for labour in Australia is looked at.

Readings:
Kaufman Ch.4
EPAC (1996) Ch.3

LECTURE 6:
FIRST MULTIPLE CHOICE EXAM
This exam tests a student's knowledge of material covered in week 1 through to human capital theory covered in week 5. It covers material from lectures, tutorials and readings.

LABOUR DEMAND: LONG RUN
This topic presents the neoclassical theory of labour demand in the long run. The elasticity of labour demand is also covered, as is the impact of technological change.
Readings:
Kaufman Ch 5
EPAC (1996) Ch.3

LECTURE 7:
THE DETERMINATION OF WAGES. MINIMUM WAGES AND THEIR IMPACT

Demand and supply are brought together in order to analyse the process of wage determination. This lecture in particular critically examines the impact of minimum wages on the labour market. New empirical evidence is presented that shows that minimum wages do not necessarily have the impacts as predicted by competitive labour market theory.

Readings:
Kaufman Ch.6
Kennan, J. (1995) 'The Elusive Effects of Minimum Wages' *Journal of Economic Literature*, vol. 33, December, 1949-1965.
Peetz, D. (1998) 'The Safety Net, Bargaining and the Role of the Australian Industrial Relations Commission' *The Journal of Industrial Relations*, 40(4), 533-553.
Freeman, R.B. (1996) 'The Minimum Wage as a Redistributive Tool' *The Economic Journal*, 106 (May), 639-649.
Richardson, S. (1998) 'Who Gets Minimum Wages' *The Journal of Industrial Relations*, 40(4), 554-579.

LECTURE 8:
OCCUPATIONAL WAGE DIFFERENTIALS

This lecture critically examines the standard neoclassical explanation of wage patterns. The empirical literature is examined to see if the evidence supports the neoclassical explanation. As the empirical evidence offers less than enthusiastic support for the neoclassical explanation, alternative explanations are briefly presented.

Readings:
Kaufman Ch.8
Kennedy, S. and Borland J. (2000) 'The Wage Curve in Australia' *Oxford Economic Papers*, 52, pp774-803.
Chang & Miller (1996) 'The Inter-Industry Wage Structure: Evidence from the 1991 Australian Census' *Australian Bulletin of Labour*, 22(1), 28-28.
Ehrenberg, R. & Smith, R. (1994) 'Compensating Wage Differentials and Labor Markets' In Modern Labor Economics: Theory and Public Policy, Ch.8.

LECTURE 9:
DISCRIMINATION IN THE LABOUR MARKET.

This lecture examines the causes and consequences of racial and gender discrimination in the labour market. A number of theories of discrimination are discussed. The measurement of discrimination on wages is outlined, as are recent trends in racial and gender based wage discrimination.

Readings:
Kaufman Ch.9
Smith, S. (1994), *Labour Economics*, Routledge, Chapter 5.

LECTURE 10:
TRADE UNIONS:

Trade unions are one of the main institutional features of the labour market. This lecture examines a number of theories of trade unions and associated empirical evidence.

Readings:
Kaufman Ch11 and 12.
Hawke, A and Wooden, M. (1998), "The Changing Face of Industrial Relations in Australia", *Economic Record*, 74(224), pp74-88.

LECTURE: 11

Second multiple choice exam held during lecture. The exam covers all material discussed up to this point in the semester, including lectures 1-10, tutorials 1-4 and associated readings.

LECTURE 12:
UNEMPLOYMENT:

Topics covered in this lecture will include; macro versus micro views on unemployment, the meaning and measurement of unemployment, the meaning and extent of hidden unemployment, stocks and flows in the labour market and their relationship to unemployment, alternative views on the causes of, and cures for unemployment. Throughout the lecture the Australian experience will be examined.

Readings:
Kaufman Ch.13
Norris Ch. 10
EPAC (1996) *Future Labour Market Issues for Australia*, Commission Paper No. 12, Ch4.
Borland, J. & Kennedy, S. (1998) 'Dimensions, Structure and History of Australian Unemployment ', paper presented to the Conference on Unemployment and the Australian Labour Market, June 1998.

LECTURE 13:
EARNINGS DISTRIBUTION:

This lecture begins by distinguishing between the functional and personal distribution of income. The focus of the lecture is on the personal distribution of earnings; that is, on the part of income which is derived from labour market activity. Topics covered include; explaining the log-normal earnings distribution; recent Australian and international trends in earnings inequality; explanations for those trends. The subject matter of this lecture also helps to 'bring together' many of the issues discussed in this unit up to this point.

Readings:
Norris Ch.9, pp 162-169.
Borland, J. (1999). "Earnings Inequality in Australia, Causes and Consequences", *Economic Record*, 75(229), pp177-202.
Gregory, R. (1993), 'Aspects of Australian and US Living Standards: The Disappointing Decades 1970-1990', *Economic Record*, Vol 69, pp61-76.
King, J., Rimmer, S. and Rimmer, R. (1992) 'The Law of the Shrinking Middle: Inequality of Earnings in Australia 1975-1989', *Scottish Journal of Political Economy*, Vol 39, pp391-412.

TUTORIAL PROGRAM

Tutorial attendance is not compulsory and there are no assessment marks allocated to the tutorial program. However 20% of the questions set in the final exam will be drawn directly from questions set and discussed in the tutorials. Tutorial solutions will not be placed in ERIC.

Tutorial 1: (March 11)
Describe the major schools of thought in labour economics.
Readings:
Kaufman & Hotchkiss Ch1
Whitfield. & Ross (1996) Ch1, especially pp 19- 35.
See relevant entries in O'Hara and Hodgson et al (from the week 1 reading list).
Also see readings by Rebitzer, Jacoby, Boyer & Smith and articles in Kerr & Staudohar from the reading list for Lecture 1.

Tutorial 2: (March 18)
Read and critically summarise George Loewenstein and Nachum Sicherman (1991) "Do Workers Prefer Increasing Wage Profiles"**,** *Journal of Labor Economics*, vol. 9, no. 1, pp 67-84. Your summary should outline why they conducted the study, their findings, any problems you found with their approach and why you thought it was interesting in terms of labour economics.

Tutorial 3: (March 25)
Consider the time-series pattern of hours of work in the United States over the last 100 years. What key empirical trends require explaining? How successful is the neo-classical school's labour/ leisure model at accounting for these changes? How important have institutional and sociological forces been in accounting for these changes?

Readings:
See Kaufman & Hotchkiss pp 78-84. Those interested in the Australian experience should consult Whitfield & Ross pp 105-111 and EPAC (1996) pp 25-6.

Tutorial 4 (May 6)
Readings
Richard B. Freeman (1996) 'The Minimum Wage as a Redistributive Tool' *The Economic Journal*, 106 (May), 639-649.
Sue Richardson (1998) 'Who Gets Minimum Wages' *The Journal of Industrial Relations*, 40(4), 554-579.

Questions

1. (a) Who are the potential losers from a minimum wage increase?
   (b) Under what conditions do minimum wage workers lose from minimum wage increases?
2. What are the main socio-demographic features of low wage workers in Australia? How do they differ from the general workforce?
3. What is the relationship between low income households and households with low wage workers? What is the role of gender and dependent children in this relationship?
4. What contribution do low wage workers make to total household income?
5. What conditions are necessary for increases in minimum wages to benefit the lowest income households? Are these conditions satisfied in Australia?
6. Would a cut in minimum wages lead to a more equitable distribution of income in Australia.
7. Which group's wages should be cut to increase employment?

Tutorial 5 (June 3)

Do the following questions from Kaufman.

Page 445, Questions 1, 2 and 3.
Page 446, Questions 8, 9 and 10.
Page 510, Question 7

Tutorial 6 (June 10)

To be advised.