



**College of Commerce  
Division of Economic and Financial Studies  
Economics Department**

**Unit Outline**

**ECON240 Labour Market Economics**

**Semester Two 2004**

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## **STAFF AND ADMINISTRATIVE DETAILS**

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

Mr Craig MacMillan, Room C5C-312, Extn 7290, email [cmacmill@efs.mq.edu.au](mailto:cmacmill@efs.mq.edu.au)

Dr Kathy Tannous, Room to be advised, email [ktannous@efs.mq.edu.au](mailto:ktannous@efs.mq.edu.au)

## **LECTURE TIMES**

WEDNESDAY: 4pm to 6pm in W5C220

## **TUTORIALS**

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

WEDNESDAY: 12 noon in C5C238

WEDNESDAY: 1PM in C5C240

WEDNESDAY: 6PM in W5C234

## **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 **September 8** during the normal lecture time.

### **ACTIVITY 2:**

#### **ESSAY (15%)**

One essay, not exceeding 1500 words in length should be submitted no later than **9.00pm on Wednesday October 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. The essay topic will be advised in a separate handout.

### **ACTIVITY 3:**

#### **MULTIPLE CHOICE EXAM (10%)**

The Exam will be held on **October 27** during the normal lecture time.

### **ACTIVITY 4:**

#### **FINAL EXAMINATION (65%)**

An end of unit two hour written examination to be taken during the end of 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	August 4	Craig Macmillan		
2	August 11	Craig Macmillan	1 CM	
3	August 18	Craig Macmillan	2 CM	
4	August 25	Craig Macmillan		
5	September 1	Craig Macmillan	3 CM	
6	September 8	<b>Multiple Choice Exam 10%</b>		<b>Multiple Choice Exam 10%</b>
7	September 15	Kathy Tannous		
	September 22	RECESS		
	September 29	RECESS		
8	October 6	Kathy Tannous		
9	October 13	Michael Dobbie	4 MD	
10	October 20	Michael Dobbie		<b>Essay Due 9.00p.m. 15%</b>
11	October 27	<b>Multiple Choice Exam 10%</b>		<b>Multiple Choice Exam 10%</b>
12	November 3	Michael Dobbie	5 MD	
13	November 10	Michael Dobbie		

## UNIT OUTLINE

The focus of this unit is upon the use of economic theory to analyse and evaluate the operation of labour markets. The various, often competing, explanations that have been

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proposed to explain labour market phenomena are stressed when appropriate. Topics covered will include; short and long run labour supply and demand, internal labour markets, personnel economics, the theory of compensating differentials, occupational health and safety, 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) (6<sup>th</sup> 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) (5<sup>th</sup> ed) *The Economics of Australian Labour Markets*. Longman, Australia.

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

Ehrenberg, R.G. & Smith, R.S. (1994)(5<sup>th</sup> 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 either in the Reserve section of the library and or ERIC. **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 (hereafter K & H) 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) (2004) *2004 Labour Statistics in Brief Australia*.

Catalogue. no. 6104.0

ABS (2004) *Year Book Australia 2004*. Catalogue no. 1301.0

Norris, K. & Mclean, B. (2000) "How Long do Jobs Last in Australia", *Australian Bulletin of Labour*, 26(2), 97-106.

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]

Kasper, W. & Streit, M. E. (1998) *Institutional Economics*. Cheltenham (UK): Edward Elgar.

Kaufman, B.E. (1988) "The Postwar View of Labour Markets and Wage Determination" in Kaufman, B. E. (ed) *How Labour Markets Work: Reflections on Theory and Practice by John Dunlop, Clark Kerr, Richard Lester, and Lloyd Reynolds*. Massachusetts : Lexington Books.

**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:**

K & H 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

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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

### **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.

Bowles, S. & Gintis, H. (2002) "Schooling in Capitalist America Revisited", *Sociology of Education*, 75 (Jan.), 1-18.

### **LECTURE 5: LABOUR DEMAND: SHORT RUN & LONG RUN**

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

#### **Readings:**

K & H Ch.4 & 5

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## **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.

The test will be held in the first hour of the lecture. The second hour of the lecture will be used go over the exam just held and to finish off any outstanding material from the topic on labour demand.

## **LECTURE 7:**

### **THE DETERMINATION OF WAGES. MINIMUM WAGES AND THEIR IMPACT**

Examination will be made of the wage determination under competition, the law of one wage, minimum wages and their impact with a specific focus on Australia, and attributes of minimum wages.

#### References:

- K & H (2003) *The Economics of Labor Markets*, Thomson Learning, Chapter 6.  
Dowrick, S. and Quiggin, J. (2003), A survey of the literature on minimum wages, February 2003 [<http://ecocomm.anu.edu.au/people/info/dowrick/Minimum-Wage.pdf>]  
Hyclak, T., Johnes, G., and Thornton, R. (2004), *Fundamentals of Labor Economics*, Houghton Mifflin Company, New York, pages 240-253.  
Cahuc, P. and Zylberberg, A. (2004), *Labor Economics*, Massachusetts Institute of Technology, pages 713-733.

## **LECTURE 8:**

### **OCCUPATIONAL WAGE DIFFERENTIALS**

Assessment will be made of compensating wage differentials, the hedonic theory of compensating wage differentials, a view of empirical evidence on occupational wage differentials; and applications of the theory in residential aged care services, occupational health and safety, and nursing profession.

#### References:

- K & H (2003) *The Economics of Labor Markets*, Thomson Learning, Chapter 9.  
Hyclak, T., Johnes, G., and Thornton, R. (2004), *Fundamentals of Labor Economics*, Houghton Mifflin Company, New York, pages 462-489.  
Cahuc, P. and Zylberberg, A. (2004), *Labor Economics*, Massachusetts Institute of Technology, pages 245-299.  
Giannelli, G.C. (2003), Joint decisions on household membership and human capital accumulation of youths. The role of expected earnings and local markets, *Journal of Population Economics*, Springer-Verlag, 16:265-285.  
Mutari, E., Figar, D.M., and Power, M. (2001) Implicit wage theories in equal pay debates in the United States, *Feminist Economics*, Routledge, 7(2) 23-52.

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**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 in wages is outlined, as are recent trends in racial and gender based wage discrimination.

**Readings:**

K & H 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:**

K & H Ch11 and 12.

Aidt, T. and Zafiris, T (2002). *Unions and Collective Bargaining*, The World Bank.

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:**

K & H Ch.13

Norris Ch. 10

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:**

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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: (August 11)**

Describe the major schools of thought in labour economics. As a guide students should think about the importance different schools of thought assign to market forces, institutional forces and sociological forces and whether they regard labour as a unique commodity or not.

#### **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: (August 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 (**available in ERIC and in library reserve**). Your summary should outline why they conducted the study, their findings, any problems you found with their approach and the significance of their findings for labour economics.

### **Tutorial 3: (Sept 1)**

Q1. 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.

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Q2. Consider Policy Application 7 – 1 in K & H pp 371-76. What are the 2 key features of the age-earnings profiles of men compared to women? How does the human capital theory of on-the-job training account for these features? To what extent does the reported empirical evidence support the human capital account?

#### **Tutorial 4 (October 13)**

Readings

K & H Ch 6.

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 conditions are necessary for increases in minimum wages to benefit the lowest income households? Are these conditions satisfied in Australia?
4. Would a cut in minimum wages lead to a more equitable distribution of income in Australia?
5. Use your knowledge of economics to provide an assessment of the following proposition. "Cutting the wages of high wage earners can lead to a more equitable distribution of income AND more employment of low wage workers." Does this proposition make economic sense to you?
6. Freeman (1996) identifies four positive attributes of minimum wages as a redistributive tool. What are they?

#### **Tutorial 5 (November 3)**

Do the following questions from K & H.

Page 445, Questions 1, 2 and 3.

Page 446, Questions 8, 9 and 10.

Page 510, Question 7

