

MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

ECON 314
LABOUR ECONOMICS

Semester 2, 2010

Department of Economics

**MACQUARIE UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
UNIT OUTLINE**

Year and Semester: Semester 2, 2010

Unit convenor: Dr. Stéphane Mahuteau

Prerequisites: Econ203 or Econ 200

Credit points: 3

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult one of the teaching staff in the unit.

ABOUT THIS UNIT

- Unit description :

The major focus of this unit is the use of economic theory and applied economics to analyse and evaluate the operation of the labour market and governments' labour market policies. Data and empirical studies from Australia and other countries is used to illustrate theories. Students are introduced to techniques enabling them to test contrasting models of the labour market and government policy, and critically assess results available in the literature. Indicative topics include: labour supply; demand; wage determination; efficiency wage theories; job search; personnel economics; trade unions and wage bargaining; theory of discrimination; and labour market outcomes of immigrants.

- Unit rationale:

There are more than 11 million people employed in Australia currently (June 2010 figures) and the number of job vacancies arising every month is, on average, 150,000. Everyday, decisions about job search, recruitment, pay levels, education, training, promotions are made which affect a large percentage of the population. Furthermore, the government's social policies and regulations of the labour market affect particular groups of workers in many aspect of their employment relation or participation to the market. From a personal involvement perspective alone, students will gain in being better informed about the labour market they will be facing, about the trends of the labour market and to be able to use economic theory in order to explain the observed labour market outcomes.

TEACHING STAFF

- Convenor: Stéphane Mahuteau
Phone:9850-8489
Room: E4A 432
Email: stephane.mahuteau@mq.edu.au

CONSULTATION TIMES

- Tuesday : 13h to 15h, E4A-432
- Wednesday: 11h to 13h, E4A-432
- By appointment for other times

You are encouraged to seek help at a time that is convenient to you from a staff member teaching on this unit during their regular consultation hours. In special circumstances, an appointment may be made outside regular consultation hours. Staff will not conduct any consultations by email. You may, however, phone staff during their consultation hours.

In order to gain access to staff located at levels 1, 2 and 3 of building E4A during their consultation hours please ring the staff member from the phones available in the lobby (phone numbers of relevant staff members will be provided on Blackboard and are available next to the phones).

Students experiencing significant difficulties with any topic in the unit must seek assistance immediately.

CLASSES

- 3 hours face-to-face teaching per week. The first two hours will consist of a formal lecture and the last hour will generally be dedicated to discussing scientific papers and empirical studies related to the lecture topic. Students are required to read these papers in advance in order to contribute to the discussions.
- The timetable for classes can be found on the University web site at: <http://www.timetables.mq.edu.au/>

It is assumed that students will attend all lectures. Students who miss classes put themselves at a significant disadvantage for several reasons, including:

(i) Not all the material in the text is covered in the unit, and not all the material in the unit is covered in the text. In some places the text deals with issues in greater depth than is necessary for the unit, and in other places it doesn't go far enough. The lectures contain all the unit material taught at the level required for the assessment tasks, and are your guide to the unit content.

(ii) The text is only a support for the students, lectures are not a repeat of the text, they extend beyond the scope of the text for some topics.

(iii) The approaches to some problems that are recommended by the lecturer are different to those in the text.

(iv) The lectures will include significant guidance about the style and content of the final exam and recommendations about study technique.

(v) It is difficult (and often impossible) for staff to provide meaningful assistance to students outside class times on topics for which they did not attend the relevant lectures and tutorials.

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

- Recommended Text:

Kaufman, Bruce & Hotchkiss, Julie (2006) (7th edition), 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.

- Additional References:

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

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

Norris, K., Kelly, R. and Giles, M. (2005) (6th ed) The Economics of Australian Labour Markets. Pearson, 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 are available at the library. Other articles recommended as reading material for the lectures will generally be posted on the unit home page.

Material such as lecture slides and examples will be available on the unit home page. Finally, the lecture notes will borrow extensively from a more technical textbook by Cahuc P. and Sylberberg, (1994), Labor Economics, MIT press. It is not necessary to purchase this book at this stage but students are welcome to borrow it from the library if they wish.

UNIT WEB PAGE

- The web page for this unit can be accessed via learn.mq.edu.au. You should check this web page regularly. The lecture slides for each week's lecture will be posted on the web page. In order to maintain enough flexibility to the content of the lectures, some lecture notes may appear on the web page after the lecture.
- We also use the web page to post important notices from time to time. Course material is available on the learning management system (BlackBoard)

LEARNING OUTCOMES

After successfully completing this unit, you will:

1. be familiar with the key issues facing the labour market
2. have a deeper understanding of economic theory
3. be able to use economic theory to analyse labour market issues beyond the scope of the unit
4. be able to critically evaluate academic research and studies dealing with Labour Economics, including having an understanding of the technical aspects of such studies
5. be able to critically evaluate Economic and Industrial Relations policies.
6. be able to continue any future studies in economics, and labour market economics in particular, with increased confidence

In addition to the discipline-based learning objectives, all academic programs at Macquarie seek to develop the capabilities the University's graduates will need to develop to address the challenges, and to be effective, engaged participants in their world.

This unit contributes to this by developing the following graduate capabilities:

1. Discipline Specific Knowledge and Skills
2. Critical, Analytical and Integrative Thinking
3. Problem Solving and Research Capability
4. Effective Communication
5. Engaged and Ethical Local and Global citizens
6. Socially and Environmentally Active and Responsible
7. Capable of Professional and Personal Judgement and Initiative
8. Commitment to Continuous Learning

TEACHING AND LEARNING STRATEGY

Our role: In the 2-hour "lecture" class, we will present new material in the form of lectures. When possible, the last hour will generally be dedicated to discussions of empirical results found in the literature. The discussion topics and papers will be made available in advance on the website of the unit.

Your role: We expect that you will attend all lectures. We expect you to read all the material prescribed for discussion in advance in order to ensure active participation in the third hour of the lectures. We also expect that you will make a good attempt at the essay and final exam.

Week-by-week list of the topics to be covered:

Following is an indicative list of topics covered during the semester. These topics may be updated in order to cover some topics more in depth upon students' demand or in order to adapt the course content to the level of technical knowledge of the majority of students joining the unit.

- Lecture 1: Introduction and Labour Supply

In this lecture we introduce the subject, look at some key indicators of the Australian Labour market, and revise some important Economic Theory concepts that will be useful throughout the semester. We introduce the basic model of labour supply

Readings:

K & H, Chapter 1 and 2

- Lecture 2: Models of Labour Supply

In this lecture we build up on the basic models of labour supply and analyse some empirical aspects of labour supply.

Readings:

K & H, Chapter 2 and 3

Blundell R., MaCurdy T., (1999), "Labour Supply: A review of alternative approaches" in Ashenfelter, O., Card D. (eds.), Handbook of Labor Economics, vol 3a, Chap 27, Amsterdam: Elsevier/North-Holland.

Heckman J. (1993), "What has been learned about labor supply in the past twenty years?" American Economic Review, Papers and Proceedings, 83(2), pp.116-121.

- Lecture 3: Education and Human Capital

In this lecture we see how the theory of human capital explains the choice of how much education to get. We'll show that time spent on acquiring education can also serve as a signal to potential employers. We'll look at some empirical results estimating the returns to education

Readings:

K & H, Chapter 7

Card D., (1999), "The causal effect of education on earnings", in Ashenfelter, O., Card D. (eds.), Handbook of Labor Economics, vol 3a, Chap 27, Amsterdam: Elsevier/North-Holland.

Acemoglu D., Angrist J., (2000), "How large are human capital externalities? Evidence from compulsory schooling laws", NBER Macroannual, pp. 9-59.

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 4: Labour force participation and Job search

In this lecture we investigate the behaviour of individuals who are looking for work. We see that the duration of unemployment depends on the reservation wage. We also show how unemployment benefits influence the duration of unemployment.

Readings:

K & H, Chapter 3, second part

Atkinson A., Mickelwright J., (1991), "Unemployment compensation and labour market transitions: A critical review", *Journal of Economic Literature*, 29, pp. 1679-1727.

Mortensen D., Pissarides C., (1999), "New development in models of search in the labor market", in *Handbook of Labor Economics*, vol 3b, Chap 39, Amsterdam: Elsevier/North-Holland.

- Lecture 5 and 6: Labour Demand

In this lecture we cover the following topics:

- how firms choose their factors of production in the short run and the long run
- substitution between labour and capital
- substitution between different types of labour
- trade-off between workers and hours
- estimates of the labour demand elasticities with respect to input costs

Readings:

K & H, Chapters 4 & 5 & 6

Abowd J., Kramarz F., (2003), "The costs of hiring and separations", *Labour Economics*, vol. 10(5), pp. 499-530

Hamermesh D., (1995), "Labour demand and the source of adjustment costs", *Economic Journal*, 105, pp. 620-634.

- Lecture 7: Compensating wage differentials

In this lecture we present the basic model of wage determination under competition. We show that in a situation of competition, the hedonic theory predicts that wage differentials compensate for the laboriousness or danger of tasks. We look at the consequences, in terms of wages, of the existence of barriers to entry and show that obstacles to perfect competition may give rise to wage discrimination among other things.

Readings:

K & H, Chapter 8 & 9

Brown C., (1980), "Equalizing differences in the labor market", *Quarterly Journal of Economics*, 94, pp. 113-134.

Rosen S., (1986), "The theory of equalizing differences", in *Handbook of Labor Economics*, vol 1, Chap 12, Amsterdam: Elsevier/North-Holland.

- Lecture 8: Contracts, risk sharing and incentives

In this lecture we investigate why firms and employees develop long run relationships. We explore the issues associated to information asymmetries between employer and employees and relate them to the existence of apparently non explained wage differentials among workers. We cover issues such as adverse selection and moral hazard and their consequences in terms of wages and labour contract in general. We develop theories of efficiency wages.

Readings;

K & H, Chapter 10

Macho-Stadler I., Peres-Castrillo D., (1997), An introduction to the economics of information: Incentives and Contracts, Oxford, UK: Oxford University Press.

Malcomson J., (1999), "Individual employment contracts", in in Handbook of Labor Economics, vol 3, Chap 35, Amsterdam: Elsevier/North-Holland.

Yellen J., (1994), "Efficiency wage model of unemployment", American Economic Review, Papers and Proceedings, 74(2), pp.200-2005.

Baker G., Gibbs M., Holmstrom B., (1994), "The internal Economics of the firm: Evidence from personnel data", Quarterly Journal of Economics, 109, pp 881-919.

Mahuteau S., (2007), "A Model of Reciprocal Fairness: Application to the Labour Contract", International Journal of Economic Research vol 4 no 2 pp. 201-235

- Lecture 9: Employee motivation and compensation: Personnel Economics

In this lecture, we go deeper inside the firms' wage and payment scheme policies and look at promotions as a means to elicit employees' continuing effort as well as differed payment schemes to limit turnover.

Readings;

K&H Ch 10

Norris et al pp 102-103.

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.), pp.611-639.

Lazear, E. P (2000b) "Performance Pay and Productivity", American Economic Review, 90(5),1346-61.

Chang, C & Miller, P (1996) "Incentive Effects in the Australian Labour Market: An Application of the Lazear and Moore Model", Australian Economic Papers, (June), 114-127.

Lazear, E. P. & Moore, R. L. (1984) "Incentives, Productivity and Labor Contracts", Quarterly Journal of Economics, (May), 275-296.

Hutchens, R. (1987) "A Test of Lazear's Theory of Delayed Payment Contracts", Journal of Labor Economics, 5(4, part2), S153-S170.

- Lecture 10: Collective bargaining and 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.

Norris et al CH 6

Booth A., (1995), *The Economics of the Trade Union*, Cambridge, UK: Cambridge University Press.

Lindbeck A., Snower D., (2001), "Insiders versus Outsiders", *Journal of Economic Perspectives*, 15, pp. 165-188.

- Lecture 11: Job reallocation and unemployment

In this lecture we look at job creation and destruction and worker flows. We introduce the Beveridge curve and discover its importance. We analyse the functioning of the labour market as a matching process between employers and employees.

Readings:

K & H, Chapter 13

Norris et al Ch. 9

Le A, T. and Miller, P. (2000), 'Australia's Unemployment Problem', *Economic Record*, 76(232), pp 74-104.

Le A, T. and Miller, P. (2001), 'Is a Risk Index Approach to Unemployment Possible?', *Economic Record*, 77(236), pp 51-70 (not essential reading).

Davis S., Haltiwanger J., Schuch S., (1996), *Job creation and destruction*, Cambridge, Mass: MIT Press.

- Lecture 12: Technological progress and inequalities

In this lecture we observe the impact of technological progress on job creation and destruction. We also look at the consequences of immigration and explore the issue of wage inequality and unemployment.

Readings:

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.

Mahuteau S., Junankar R., (2008), "Do migrants get good jobs in Australia? The role of ethnic networks in job search", with Raja Junankar, *The Economic Record*, vol 84 issue s1, pp.s115-s130

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.

Acemoglu D., (2002), "Technical change, inequality and the labor market", *Journal of Economic Literature*, 40(1), pp. 7-72.

- Lecture 13: Institutions and labour market performance.

The content of this lecture may be adapted depending on the progress realized with the previous lectures: lecture 12 may have to be extended to a part of lecture 13. In this lecture we look at various active labour market policies adopted in the OECD countries and we explore assessments of their efficiency.

Readings;

Grubb D., Martin J., (2001), "What works and for whom: A review of OECD countries' experiences with active labour market policies", Swedish Economic Policy Review, 8, pp 9-56.

Blanchard O., Wolfers J., (2000), "The role of Shocks and institutions in the rise of European unemployment: The aggregate evidence", Economic Journal, 110, suppl, pp.1-33

Blundell R., Costa Dias M., Meghir C., Van Reenen J., (2003), "Evaluating the employment impact of a mandatory job search assistance program", IFS Working Paper W01/20.

RESEARCH AND PRACTICE

- This unit uses research by Macquarie University researchers (see website of the unit)
- This unit uses research from external sources (see website of the unit)
- This unit gives you practice in applying research findings in your assignments
- This unit gives you opportunities to conduct your own research

RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

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

ACTIVITY 1: MULTIPLE CHOICE EXAM (10%)

The Exam will be held on **week 4 of the semester during the normal lecture time**. The exam will include questions on all material covered in the unit (lectures or readings) up to week 3. The purpose of this assessment is to identify students at risk of failing the unit. Students identified as being at risk will be given the opportunity to consult with the lecturer in charge in order to determine a study pattern conducive to better achievements in the subsequent assessments.

ACTIVITY 2: ESSAY (30%)

One essay, not exceeding 1500 words in length should be submitted no later than **4.00pm on Friday 15th October**. Essays are to be placed in the Econ314 box in BESS. 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 on the Econ314 web page within 48 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 Stéphane Mahuteau immediately. If you do not follow this procedure then you

cannot claim at the end of the semester that your essay was submitted but not returned to you.

Late assignments won't be accepted by the lecturer in charge

The essay topics will be advised on the web page of the unit within the first two weeks of lectures.

ACTIVITY 3: FINAL EXAMINATION (60%)

A final examination is included as an assessment task for this unit to provide assurance that:

- i) the product belongs to the student and
- ii) the student has attained the knowledge and skills tested in the exam.

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.

The University Examination period in Second Half Year 2010 is from Wednesday 17 November to Friday 3 December.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.

<http://www.timetables.mq.edu.au/exam>

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. The University's policy on special consideration process is available at http://www.mq.edu.au/policy/docs/special_consideration/policy.htm

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period. (Individual Faculties may wish to signal when the Faculties' Supplementary Exams are normally scheduled.)

The Macquarie university examination policy details the principles and conduct of examinations at the University. The policy is available at: <http://www.mq.edu.au/policy/docs/examination/policy.htm>

Requirements to Pass This Unit

To pass ECON314, students must satisfy each of the following requirements:

- (1) An overall satisfactory performance in all assessment components;
- (2) Submission of the Essay

	Assessment Task 1	Assessment Task 2	Assessment Task 3
Title/Name	MCQ	ESSAY	FINAL EXAMINATION
Description (<i>including length or similar if applicable</i>)	20 multiple choice questions	1500 words essay	MCQ + essay questions
Due date	Week 4 lecture	15 th October 4pm	University exam period
% Weighting	10	30	60
Grading method - marking criteria/ standards - expectations in relation to presentation - referencing requirements	Half a mark per question answered properly	Marking criteria: - Ability to find available literature - Ability to critically evaluate the available literature - Ability to answer a research question using literature while maintaining the originality of the views expressed - Ability to effectively communicate - Ability to present arguments in an objective manner following a scientific approach - Ability to reference and utilise other contributors' work	- MCQ: 1 mark per question answered properly - Essay type questions: Ability to appropriately use economic theory in order to answer the questions Clarity of communication Understanding of the theories exposed in class and how they articulate with real world issues and facts Ability to use references given in the readings to illustrate answers to the questions
Submission method	During lecture time	Essays to be placed in the Econ314 box at BESS	End of year examination
Feedback	Solutions to the exam given during the next lecture and encouragements	Return of Essay with feedback	

	Assessment Task 1	Assessment Task 2	Assessment Task 3
	to seek consultation with the lecturer in charge		
Estimated student workload (hours)	2 to 3 hours a week of revising lecture notes and reading recommended articles put on the website of the unit	The essay must be started as early as possible as soon as the topics are available. A couple of hours a week should suffice for a satisfactory completion of this assignment, with an allowance of extra hours closer to the deadline	Same as for MCQ
Learning outcomes assessed as listed above			
1	Y	Y	Y
2	Y		Y
3		Y	
4		Y	Y
5		Y	Y
6		Y	
Graduate capabilities assessed as listed above			
1	Y	Y	Y
2		Y	Y
3		Y	Y
4		Y	Y
5		Y	
6			
7		Y	
8		Y	

ACADEMIC HONESTY

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim

- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at http://www.mq.edu.au/policy/docs/academic_honesty/policy.html

GRADES

Please refer to relevant Bachelor Degree rule in the Handbook of Undergraduate Studies.

GRADING APPEALS AND FINAL EXAMINATION SCRIPT VIEWING

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.

http://www.businessandeconomics.mq.edu.au/for/new_and_current_students/undergraduate/admin_central/grade_appeals.

SPECIAL CONSIDERATION

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at: http://www.mq.edu.au/policy/docs/special_consideration/procedure.html

STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at <http://www.student.mq.edu.au>.

[Individual Unit Convenors may wish to add Unit/ Faculty specific support eg BESS, Room, PAL, E4B Consultation Room.]

IT CONDITIONS OF USE

Access to all student computing facilities within the Faculty of Business and Economics is restricted to authorised coursework for approved units. Student ID cards must be displayed in the locations provided at all times.

Students are expected to act responsibly when utilising University IT facilities. The following regulations apply to the use of computing facilities and online services:

- Accessing inappropriate web sites or downloading inappropriate material is not permitted. Material that is not related to coursework for approved unit is deemed inappropriate.
- Downloading copyright material without permission from the copyright owner is illegal, and strictly prohibited. Students detected undertaking such activities will face disciplinary action, which may result in criminal proceedings.

Non-compliance with these conditions may result in disciplinary action without further notice.

Students must use their Macquarie University email addresses to communicate with staff as it is University policy that the University issued email account is used for official University communication.