College of Commerce
Division of Economic and Financial Studies
Economics Department

Unit Outline

ECON240   Labour Market Economics

Semester Two 2004
STAFF AND ADMINISTRATIVE DETAILS
Dr Michael Dobbie, (Unit Coordinator) Room C5C-374, Extn 8502, email mdobbie@efs.mq.edu.au

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

Dr Kathy Tannous, Room to be advised, email 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

<table>
<thead>
<tr>
<th>Lecture No.</th>
<th>Date</th>
<th>Lecturer</th>
<th>Tutorial Number &amp; Tutor</th>
<th>Assessment Dates</th>
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<tr>
<td>1</td>
<td>August 4</td>
<td>Craig Macmillan</td>
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<td>2</td>
<td>August 11</td>
<td>Craig Macmillan</td>
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<td>3</td>
<td>August 18</td>
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<td>August 25</td>
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<td>September 1</td>
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<td>September 8</td>
<td>Multiple Choice Exam 10%</td>
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<td>September 15</td>
<td>Kathy Tannous</td>
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<td>October 6</td>
<td>Kathy Tannous</td>
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<td>9</td>
<td>October 13</td>
<td>Michael Dobbie</td>
<td>4 MD</td>
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<td>10</td>
<td>October 20</td>
<td>Michael Dobbie</td>
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<td>Essay Due 9.00p.m. 15%</td>
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<td>11</td>
<td>October 27</td>
<td>Multiple Choice Exam 10%</td>
<td>Multiple Choice Exam 10%</td>
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<td>12</td>
<td>November 3</td>
<td>Michael Dobbie</td>
<td>5 MD</td>
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<td>13</td>
<td>November 10</td>
<td>Michael Dobbie</td>
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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
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


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


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
ACIRRT (1999) Ch 1 & 2

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.
Ehrenberg & Smith Ch.11

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

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
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 to 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:
Dowrick, S. and Quiggin, J. (2003), A survey of the literature on minimum wages, February
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:
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
the United States, Feminist Economics, Routledge, 7(2) 23-52.
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

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.

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

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.

**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
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 Sieberman (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:**
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.

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