You should read this unit outline carefully. 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

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, the employment relationship, the impact of employment protection legislation and minimum wage laws, unemployment and earnings distribution.

TEACHING STAFF

Dr Michael Dobbie, (Unit Convenor) Room E4A416, Phone 98508502, email mdobbie@efs.mq.edu.au

Mr Craig MacMillan, Room E4A427, Phone 98507290, email cmacmill@efs.mq.edu.au

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 weeks lecture will be posted on the web page, before the lecture. You will find it useful to download the slides prior to the lecture, and bring to them to the lecture. We also use the web page to post important notices from time to time.

CLASSES

Lecture: Wednesday: 3PM to 5PM in E6A133

Tutorial: Wednesday 1PM in C5A313 or Wednesday 5PM in W6B320

LEARNING OUTCOMES

After successfully completing this unit, you will:

- be familiar with the key issues facing the Australian labour market
- have a deeper understanding of economic theory
- be able to continue any future studies in economics, and labour market economics in particular, with increased confidence

All academic programs at Macquarie seek to develop students’ generic skills in a range of areas. One aim of this unit is that you will develop your skills in literacy and numeracy; group-work and communication; problem solving and critical thinking; and creativity.
**REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS**

Recommended Text


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 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.


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.*

**ASSESSMENT AND ITS RELATION TO LEARNING OUTCOMES**

Assessment will be based on the following **FOUR** activities. Students must satisfactorily complete **ALL** four activities to be eligible to pass this unit. In particular, you **MUST** pass the final exam to be eligible to pass the unit.

**ACTIVITY 1:** MULTIPLE CHOICE EXAM (10%)  
The Exam will be held on **October 22** during the normal lecture time. The exam will include questions on all material covered in the unit (lectures, tutorials and readings) up to and including lecture 9 and tutorial 5.

**ACTIVITY 2:** ESSAY (15%)  
One essay, not exceeding 1500 words in length should be submitted no later than 6.00pm on **Wednesday October 15**. 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 on the Econ240 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 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 at the end of this document.

**ACTIVITY 3: TUTORIAL PERFORMANCE (10%)**
This aspect of the assessment is explained in more detail on page 9 of this document.

**ACTIVITY 4: FINAL EXAMINATION (65%)**
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.

**TEACHING AND LEARNING STRATEGIES**

*Our role:* In the 2-hour “lecture” class, we will present new material in the form of lectures. In the tutorial classes we will guide your attempts to discuss the material set down for discussion. We will answer your questions during and after lectures and tutorials. We will also answer questions during our consultation times and by e-mail.

*Your role:* We expect that you will attend all lectures and tutorials. We expect you to read all the material prescribed on the reading list. We expect you to read the material prescribed for tutorials, before the tutorial, and be prepared to participate actively in tutorial discussion. We also expect that you will make a good attempt at the essay and final exam.

**EXAMINATIONS – GENERAL INFORMATION**

The University Examination period for the second semester 2008 is from 19 November – 5 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 at http://www.timetables.mq.edu.au/exam in draft form approximately eight weeks before and in final form approximately four weeks before the commencement of the examinations.

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. Information about this is given at http://www.reg.mq.edu.au/Forms/APSCon.pdf. 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.

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, that is, the final day of the official examination period.

**PLAGIARISM – IMPORTANT NOTES**

The University defines plagiarism in its rules: “Plagiarism involves using the work of another person and presenting it as one's own.” Plagiarism is a serious breach of the University’s rules and carries significant penalties. You must read the University’s practices and procedures on plagiarism. These can be found in the *Handbook of Undergraduate Studies* or on the web at: http://www.student.mq.edu.au/plagiarism/.

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.
UNIVERSITY POLICY ON GRADING

Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a standardised numerical grade (SNG). On occasion your raw mark for a unit (i.e., the total of your marks for each assessment item) may not be the same as the SNG which you receive. Under the Senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so that units with the same past performances of their students should achieve similar results. It is important that you realise that the policy does not require that a minimum number of students are to be failed in any unit. In fact it does something like the opposite, in requiring examiners to explain their actions if more than 20% of students fail in a unit. The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another will also receive a higher final scaled mark.


STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can accessed at http://www.student.mq.edu.au. For students taking units in the Division of Economic and Financial Studies, ERIC is in E4B and contains a large amount of resources for your help.
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<thead>
<tr>
<th>Lecture No.</th>
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<th>Lecturer</th>
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<th>Assessment Dates</th>
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<tr>
<td>1</td>
<td>August 6</td>
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<td>9</td>
<td>October 15</td>
<td>Michael Dobbie</td>
<td>5</td>
<td>Essay Due</td>
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<td>10</td>
<td>October 22</td>
<td>Michael Dobbie</td>
<td></td>
<td>Multiple Choice Exam</td>
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<tr>
<td>11</td>
<td>October 29</td>
<td>Michael Dobbie</td>
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<td>12</td>
<td>November 5</td>
<td>Michael Dobbie</td>
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<td>November 12</td>
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LECTURE 1:
INTRODUCTION TO THE STUDY OF LABOUR MARKETS

Topics covered include; what is modern labour economics, labour market processes, labour market outcomes and a brief statistical overview of the Australian labour market.

Readings:
Kaufman & Hotchkiss (hereafter K & H) Ch.1- Essential
Norris et al 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, and the theory of deferred-payment schemes.

Readings:
K&H Ch 10
Norris et al pp 102-103.
Ehrenberg & Smith Ch.11

LECTURES 3 & 4:
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 et al Ch 2

LECTURE 5:
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 et al Ch 4

LECTURE 6:
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
Norris et al Ch 3

LECTURE 7:
THE DETERMINATION OF WAGES UNDER COMPETITION. THE THEORY OF COMPENSATING WAGE DIFFERENTIALS

Examination will be made of the wage determination under competition. The theory of compensating wage differentials will also be outlined.

References:
K & H CH 6 and CH8 (pp387-397)

LECTURE 8:
THE HEDONIC THEORY OF OCCUPATIONAL WAGE DIFFERENTIALS: THEORY, APPLICATIONS AND EVIDENCE

The hedonic theory of compensating wage differentials will be presented and assessed. The theory will be applied to an examination of issues such as occupational health and safety, the growth of
fringe benefits and the work/family-life balance debate. The lecture will also examine and appraise the empirical evidence relating to compensating wage differentials.

References:
K & H CH 8 (pp397-438)

LECTURE 9:
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.
Norris et al CH 6

LECTURE 10
• The first half of this lecture will be given over to the multiple choice exam. The second half will involve a lecture on:
DISCRIMINATION IN THE LABOUR MARKET

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

Readings:
K & H Ch.9
Norris et al CH 7

LECTURE 11:
UNEMPLOYMENT

Topics covered in this lecture include; macroeconomic versus microeconomic views on unemployment, the meaning and measurement of unemployment, the meaning and extent of hidden unemployment, the ‘risk index’ approach to unemployment. Throughout the lecture the Australian experience will be examined with reference to cross-sectional and time series data evidence.

Readings:
Norris et al Ch. 9

LECTURE 12:
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:**

**LECTURE 13: INTERNAL LABOUR MARKETS**
This lecture examines the concept of internal labour markets (ILM). Different ILM models are discussed as well as the different approaches to studying them.

**Readings:**
K&H pp 297-99 & 362 - 363
Norris et al Ch.5.

**Tutorial Program**

The tutorial program in Econ240 is an integral part of the unit. The structure of the tutorial program is intended to help with your understanding of labour economics, but to also provide an opportunity to develop your written and verbal communication skills. There are six tutorials in total. The first tutorial will be held in week two. During the first tutorial students will be placed into groups which will then be responsible for leading the discussion during the tutorial assigned to that group. Attendance at all tutorials after the first one is **COMPULSORY**. For each tutorial not attended, one mark will be deducted from your final marks in Econ240.

In addition students will be awarded a mark out of TEN depending on the quality of the written and verbal presentation during the tutorial to which they have been assigned in the first tutorial. The mark awarded will be a group mark that will apply to all members of the group. The group will be responsible for leading the discussion and will also be expected to hand in a single set of written answers to the questions being discussed during their assigned tutorial. As an additional incentive, **ONE QUESTION IN THE FINAL EXAM** will be drawn from material in the tutorial program.

**Tutorial 1: (August 13)**

What are the distinguishing or “unique” features of labour markets? Do you think that these features make labour different from other commodities? Do you think labour suffers from a bargaining disadvantage when negotiating the employment relationship? Why? Students are encouraged to construct their own logical arguments to justify their opinion.

**Readings:**
Norris Ch 1
Tutorial 2: (August 20)


What is the purpose of the paper? Describe how the study was undertaken? What are the findings of the study? What is the significance of these findings for labour economics? What problems did you find with this study and how would you rectify them.

Tutorial 3: (September 3)

What is the reservation wage?
Define the labour force participation rate (LFPR). What has been happening to the LFPR of men and women overtime in the U.S. and Australia?
For both the U.S. and Australia what is the pattern of the male LFPR by age and how has it been changing overtime? What is the pattern for women and how has it changed overtime?
What is the behaviour of the LFPR over the business cycle in the U.S. and Australia? What is the discouraged worker effect and the added (or additional) worker effect?
For the above questions also mention any of the factors accounting for changes in the LFPR of men and women.

Readings
Kaufman and Hotchkiss (2006) Ch3
Norris et al pp 30-37.

Tutorial 4 (September 10)

All economists accept that there is a positive correlation between education and earnings. However, economists do not agree on why education leads to higher earnings. How does human capital theory explain the relationship between education and earnings? What is the screening hypothesis? Examine the empirical studies that have attempted to distinguish between the human capital and screening accounts of the education-earnings link? Describe the Marxian (radical) account provided by Bowles and Gintis of the education-earnings link. What evidence do they provide to support their interpretation?

Readings
Norris Ch 4, especially pp 83–86.

Tutorial 5 (October 15)

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?

Readings

Tutorial 6 (November 5)

Do the following questions from your textbook, Kaufman and Hotchkiss (2006)

Page 441, Questions 1, 2, and 3.
Page 441, Questions 8, 9 and 10.
Page 503, Question 7

Essay Question

You are required to submit an essay, no longer than 1500 words in length by 6pm October 15.

Question

Assuming a competitive labour market, outline the predicted effects of a minimum wage on employment and unemployment. Discuss one alternative theoretical model or approach that produces different predictions to that of the competitive model. Discuss some of the empirical evidence that tests the employment effects of minimum wages.

Starting References:
K & H CH 6.


Note that these starting references discuss a range of effects produced by minimum wages, including employment/unemployment effects. Your essay requires you to focus only on the employment/unemployment effects of minimum wages. You can therefore ignore sections of the starting references, and any other references you uncover in your research, that do not relate to employment/unemployment effects of minimum wages.

POINTS TO REMEMBER:

There is a large literature on the effects of minimum wages. This literature is readily available through the library online search facilities. To write an acceptable essay YOU MUST read beyond
the starting references. If you simply read and summarise the starting references you will not pass
the essay. We do not expect you to read everything that has been written on this topic. That would
be unreasonable given the volume of literature that exists and the 1500 word limit we have set for
your essay. However the quality of your essay will be directly proportional to the research effort
that you put into it. The more you read the clearer will be your own understanding of this topic.
This clearer your understanding of the topic, the better placed you will be to produce a good essay.

Referencing
The essay must conform to an academically accepted system of referencing. Our preference is for
you to use the “within text” system, also known as the “author-date” system. If you are in any
doubt about how to write an essay that conforms to university standards the first port-of-call is
ERIC which has copies of “Essay Writing in Economics” prepared by Prof. Rod O'Donnell for
you to photocopy. You can also consult “The Style Manual” (PN147.S83) in the Reference section
of the library.

In the evaluation of written work the following factors will be considered:

1. The standard displayed in English expression and sentence construction and the level
   attained in the written articulation of ideas.
2. The ability to exhibit critical analysis in the subject area.
3. The ability to develop ideas in a logical or sequential fashion.

DON’T CHEAT:
The essay must represent the student’s own work. It is recognised that many of the points expressed
in the essay will have been derived from books and articles and other publications. However,
students cannot simply directly copy from these or any other sources. The points made must be
explained in your own words. However, to reinforce ideas explained in their essay, students may
use quotes that are correctly referenced.

The following statement relating to collusion and plagiarism has been prepared by the University.

“The integrity of learning and scholarship depends on a code of conduct governing good
practice and acceptable academic behaviour. One of the most important elements of good practice
involves acknowledging carefully the people whose ideas we have used, borrowed, or developed.
All students and scholars are bound by these rules because all scholarly work depends in one way or
another on the work of others.

Therefore, there is nothing wrong in using the work of others as a basis for your own work,
nor is it evidence of inadequacy on your part, provided you do not attempt to pass off someone
else's work as your own.

To maintain good academic practice, so that you may be given credit for your own efforts, and so
that your own contribution can be properly appreciated and evaluated, you should acknowledge
your sources and you should ALWAYS:

(i) State clearly in the appropriate form where you found the material on which you have based
    your work.

(ii) Acknowledge the people whose concepts, experiments, or results you have extracted,
    developed, or summarised, even if you put these ideas into your own words.
(iii) Avoid excessive copying of passages by another author, even where the source is acknowledged. Find another form of words to show that you have thought about the material and understood it, but remember to state clearly where you found the ideas.

If you take and use the work of another person without clearly stating or acknowledging your source, you are falsely claiming that material as your own work and committing an act of PLAGIARISM. This is a very serious violation of good practice and an offence for which you will be penalised.

YOU WILL BE GUILTY OF PLAGIARISM if you do any of the following in an assignment, or in any piece of work which is to be assessed, without clearly acknowledging your source(s) for each quotation or piece of borrowed material:

(a) Copy out part(s) of any document or audio-visual material, including computer-based material;

(b) Use or extract someone else's concepts or experimental results or conclusions, even if you put them in your own words;

(c) Copy out or take ideas from the work of another student, even if you put the borrowed material in your own words;

(d) Submit substantially the same final version of any material as a fellow student. On occasions, you may be encouraged to prepare your work with someone else, but the final form of the assignment you hand in must be your own independent endeavour.”

The simplest way to avoid plagiarism is to be open about your sources. There is no academic demerit in this. Many of the ideas used in essays, articles and books inevitably build on the work of others, and it is only honest and courteous to acknowledge those to whom you are indebted.