

Labor Economics (Econ 373)

Department of Economics
American University

Professor: Paul Sullivan

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Office Hours: Weekly schedule posted here: [link](#), and by appointment

Course Meetings: Monday and Thursday, 4:05pm-5:20pm, DMTI 121

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COURSE DESCRIPTION:

This course focuses on understanding how labor markets operate. Primarily, our approach will be theoretical. We will build economic models of the labor market in order to gain insights into topics such as: How are wages and hours of work determined? Why are people unemployed? What are the effects of government policies, such as the minimum wage, on workers and firms? In addition, we will discuss some empirical evidence on how the labor market functions. That is, we will consider whether or not evidence from real world data supports or contradicts various theoretical models.

The prerequisite for this course is intermediate microeconomics (ECON-300 or ECON-400). This prerequisite is *critical* to your success in the class and will not be waived for any reason. The models that we work with will often be abstract and mathematical, and will build heavily on your knowledge of intermediate microeconomic theory. A primary focus of the course is learning how to analytically solve economic models using logic and mathematics.

STUDENT LEARNING OUTCOMES:

After completing this course, students should be able to:

1. Explain using verbal descriptions, graphs, and mathematics, how individuals make decisions about labor supply, and how firms make decisions about labor demand.
2. Explain using verbal descriptions, graphs, and mathematics, alternative models of how wages and employment are determined.
3. Use economic theory to evaluate the effects of government policies, such as the minimum wage and taxes, on the labor market.
4. Evaluate whether or not empirical evidence is consistent with the predictions of different theoretical models of the labor market.

GRADING:

Your grade will be based on the following components, with weights in parenthesis:

- Three in Class Exams (65% total)

- Final Exam (35%)

The *minimum* numerical average needed to attain each letter grade for the course is as follows:

		Grading Scale									
Average	< 60	60 – 69	70 – 72	73 – 76	77 – 79	80 – 82	83 – 86	87 – 89	90 – 92	≥ 93	
Grade	F	D	C-	C	C+	B-	B	B+	A-	A	

However, final grades will very likely be curved. The grading scale above ensures that your grade will never be “curved down.” For example, a final average of 91 will earn *at least* an A–.

Problem Sets:

Periodically, I will post problem sets, along with solutions, on Blackboard. These assignments will provide valuable hands-on practice working with the models and methods covered during the course. Mastering these assignments is the best way to ensure that you perform well on exams.

Exams:

The in class exams are scheduled for **2/14/2019**, **3/25/2019**, and **4/22/2019**, during the normal class meeting time. The final exam is scheduled for a date and time determined by the registrar.

Policy on Missed Exams:

Short of a **documented** medical emergency or something equally serious, there is no valid excuse for missing an exam. In the event that you do have an excused absence from an exam, your final grade will be based on a re-weighting of your remaining grades. However, if you miss the final exam and have an acceptable justification, a make-up exam will be arranged for you afterwards.

CLASS MEETINGS:

The course will consist of a mixture of lecture and class discussions. Reading the assigned sections of the textbook *before* class will help you get the most out of lectures and discussions. In borderline grading situations, attendance and quality of participation in class discussions will be taken into account.

Note on Cell Phones and Laptops: Cell phones must be turned off once you enter the classroom. Laptops are permitted during class only for taking class notes, but I strongly discourage you from taking notes on a computer. All other activities on a laptop are distracting to others and to the instructor, and therefore are not permitted during class time.

COURSE RESOURCES:

The required textbook is the seventh edition of *Labor Economics*, by George Borjas. Additional materials, such as supplemental notes and journal articles, will be available on Blackboard.

If you need a textbook to review topics covered in intermediate microeconomics, I recommend *Intermediate Microeconomics: A Modern Approach*, by Hal Varian.

ACADEMIC INTEGRITY:

Standards of academic conduct are set forth in the University's Academic Integrity Code. By registering, you have acknowledged your awareness of the Academic Integrity Code, and you are obliged to become familiar with your rights and responsibilities as defined by the code. Violations of the Academic Integrity Code will not be treated lightly, and disciplinary actions will be taken should violations occur; the standard sanction for violations is failure of the course.

TOPICS AND READING LIST:

The topics and reading list are subject to change, and the current schedule will always be posted on Blackboard. Updates will be announced in class.

1) Preliminaries

- (a) Introduction and Explanation of Course Structure
- (b) Working with Economic Models
- (c) Review/extensions of Intermediate Microeconomic Theory
 - i. The Budget Constraint
 - ii. Utility Functions; Indifference Curves
 - iii. Consumer Choice; Demand Functions

2) Labor Supply (Chapter 2)

- (a) Static Labor Supply Theory: The Labor-Leisure Choice
 - i. The Worker Decision Problem: Participation and Optimal Hours of Work
 - ii. Solving the Model
 - iii. Analyzing the Effects of Changes in Prices and Income
 - iv. Labor Supply Elasticities; Income and Substitution Effects
 - v. Taxation of Labor Income; Other Government Policies

3) Labor Demand (Chapter 3)

- (a) Production and Optimal Firm Behavior
 - i. Profit Maximization: Competitive Markets
 - ii. Solving for Short Run Labor Demand
 - iii. Production Functions
 - iv. Labor Demand Elasticity; Elasticity of Substitution
- (b) Minimum Wages (theory and some empirical evidence)
 - i. Predictions of Competitive Model
 - ii. Difference-in-Differences

- Card, David, and Alan B. Krueger. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania." *The American Economic Review* 84(4), pp. 772-793, September 1994.

4) **Equilibrium in the Labor Market** (Chapter 4)

- Competitive Equilibrium
- Analytical Examples; Measuring Welfare
- Taxes and Government Policies

5) **Monopsony**

- The Firm Problem
- Alternative Models of Market Structure
- Solving the Monopsony Model
- Minimum Wages under Monopsony

6) **Models of Wage Determination and Contracting** (Chapter 11)

- The Principal-Agent Problem; Strategic Interactions
 - Solving for Optimal Incentive Pay Schemes
 - Applications
- Efficiency Wages
 - Daniel M. G. Raff, and Lawrence H. Summers. "Did Henry Ford Pay Efficiency Wages?" *Journal of Labor Economics* 5(4), pp. S57-86, October 1987.
- Tournaments

7) **Human Capital** (Chapter 6)

- Education
 - Basic Theory of Investment in Education
 - Discounting and Present Value
 - Applications: Graduate School
- A Two-Period Model of Investment in Schooling
 - Optimal Investment; Opportunity cost
 - Applications: Student Loans and Grants
- Selection Bias and the Return to Schooling
- An Alternative to the Human Capital Model: Signaling

8) **Additional Topics** (time permitting; to be selected based on class interest)

- (a) Theory of Equalizing Differences
- (b) Discrimination
- (c) Unemployment
- (d) Income Inequality
- (e) Job Search and Worker Mobility