

## Course Outline for “Labour Economics” (EC3311) – 2004-2005

### Fall Term

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### Spring Term

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### Course Overview

This is a full year course examining the economic issues of labour markets. The first term will focus primarily on the operation of labour markets (labour demand and supply, labour market equilibrium), the role of labour market institutions (trade unions, minimum wages), and labour market disequilibrium (unemployment, efficiency wages). The second term, taught by Andrew Seltzer, will focus more on topics relating to education, wage formation, earnings inequalities, pay and productivity, intergenerational mobility, and topics on personnel economics.

### Aims

This course will analyse topics of behaviour and outcomes in labour markets and other related markets. We will discuss the way in which labour markets are organized and what implications this has for individual outcomes. We begin by considering the behaviour of firms (labour demand) and workers (supply) and examine how a labour market equilibrium is obtained. After that, we turn to the issue of unemployment and examine various approaches that attempt to explain the co-existence of unemployment and vacancies at equilibrium. We then look at the role of some labour market institutions, particularly trade unions and minimum wages. The main analytical tools will be theoretical but we will also be using real- world examples and applied techniques in order to evaluate the theoretical models and relate them to topical issues in public policy. You will need to refresh your memory of microeconomics, algebra, and basic econometrics.

### Learning Outcomes

Upon completion of the course students should:

- understand the basic theoretical models of labour economics and how these can be applied to policy issues;
- understand the underlying empirical approaches used to evaluate these models and be familiar with the empirical work conducted to test their predictions;
- be able to manipulate these models, and be able to analytically solve problems

relating to labour markets;

- be able to apply the models to important policy areas whilst being aware of the limitations of the theory;
- be able to apply the models to firms personnel practices;
- have a overview of the main areas in labour economics and be able to read journal articles and understand the main issues presented.

### **Course Delivery**

The course will be delivered through a one-hour lecture and a one-hour seminar each week. Specific learning outcomes and readings are provided for each week. Seminars will be used both to present new material and to solve problems. The lecturer will be available for consultations during the advertised office hours or by appointment.

### **Course Assessment**

A three- hour unseen exam for this course will be given during the summer term and will count for the entire mark. The exam will test your knowledge and understanding of the material covered in the course; your ability to manipulate and solve algebraic versions of the models you have learned; your ability to apply these models to “real” economics situations. You will be required to demonstrate an understanding of important debates within labour economics and the techniques used to analyse the issues contained in these debates. **Formative assessment** will consist of a one-hour unseen test and an assignment each term. The dates for these assessments are listed in the student handbook. You will be provided with the standardised feedback on these pieces of work. Students are required to regularly attend seminars and seriously attempt at least three of the four pieces of formative assessment in order to sit the final exam.

### **Web Pages**

Fall – <http://personal.rhul.ac.uk/umte/234/EC3311Aut.htm>

Spring - <http://personal.rhul.ac.uk/uhte/020/EC3311.html>

I will post all overheads online prior to the lecture.

### **Course Outline – Spring Term**

The seminar sheets will focus primarily on the journal articles. \* indicates that the article is available via JSTOR (<http://www.jstor.org>). Note this JSTOR is not available off campus, unless you have a license.

## **I. Returns to Education and Training: Human Capital and Signalling (weeks 1-3)**

Readings: E&S, ch 9

\* Rosenzweig, M, "Why are there returns to schooling?" *American Economic Review*, 85(2), 1995, pp. 153-158.

\*Paul Miller, Charles Mulvey, and Nick Martin, "What do Twins Studies Reveal About the Economic Returns to Education?: A Comparison of Australian and US Findings", *American Economic Review*, 85, 1995, pp.586-599.

\*George Psacharopoulos, "Returns to Education: A Further International Update and Implications," *Journal of Human Resources*, 20, 1985, pp. 583-604.

\*Andrew Weiss, "Human Capital vs. Signalling Explanations of Wages," *The Journal of Economic Perspectives* 9:4 (Fall 1995), 133-154.

## **II. Pay and Productivity: The Principal Agent Relationship, Bonuses, Piece rates, Deferred Compensation, Tournaments (weeks 4-6)**

Readings: E&S, ch 11

Edward Lazear, *Personnel Economics*, Cambridge, MA: MIT Press, 1995, chapter 3, "Relative Compensation", pp. 25-38 and chapter 4, "Work-Life Incentive Schemes", pp. 39-46.

\*Edward Lazear, "Performance Pay and Productivity", *American Economic Review*, 90 (December 2000), 1346-1361.

\*Canice Prendergast, "The Provision of Incentives in Firms", *Journal of Economic Literature*, 37, 1999, pp. 7-63.

\*George Baker, Michael Gibbs, and Bengt Holmstrom, "The Wage Policy of a Firm", *Quarterly Journal of Economics*, 99, November 1994, 921 - 55.

\*Andrew Seltzer and David Merrett, "Personnel Practices at the Union Bank of Australia: Panel Evidence from the 1887-1900 Entry Cohorts", *Journal of Labor Economics*, 18, October 2000, pp. 573-613.

## **III. Compensating Wage Differentials (week 7)**

Readings: E&S, ch 8

\*Charles Brown, "Equalizing Differences in the Labor Market," Quarterly Journal of Economics, 94, 1980, pp. 113-34.

\*Robert Smith, "Compensating Wage Differentials and Public Policy: A Review," Industrial and Labor Relations Review, 32, 1979, pp. 339-52.

#### **IV. Inequality in Earnings (week 8)**

Readings: E&S, ch 14

\*Francine Blau and Lawrence Kahn, "International Differences in Male Wage Inequality: Institutions Versus Market Forces", Journal of Political Economy, 104, 4 (August 1996): 791-837.

#### **V. Intergenerational Mobility (week 9)**

Readings:

\* Becker G. and N. Tomes, 1986, "Human Capital and the Rise and Fall of Families", Journal of Labor Economics 4 (1986): S1-S39.

\* Solon, G., 1992, "Intergenerational Income Mobility in the United States". American Economic Review 82, 393-408.

\*Dearden, L., S. Machin, and H. Reed, 1997, Intergenerational Mobility in Britain, The Economic Journal 107, 47-66.

\*Carneiro, P. and J.J. Heckman, 2002, The Evidence on Credit Constraints in Post-Secondary Schooling, CESifo Discussion Paper No. 518.

#### **VI. Peers and Labour Market Outcomes (week 10)**

Readings:

\* Evans, Oates and Schwab, "Measuring Peer Group Effects" Journal of Political Economy, 100(5), 1992, pp. 966-991.

Andrea Ichino and Giovanni Maggi, "Work Environment and Individual Background: Explaining Regional Shirking Differentials in a Large Italian Firm", Quarterly Journal of Economics 115(3), 1057-1090. <http://www.iue.it/Personal/Ichino/zelig37a.pdf>