

Rutgers University Department of Economics  
Econ 402: Labor Economics  
Summer 2020

**Instructor:** Yongbo Sim

**Classroom:** Canvas

**Class Hours:** Tuesday and Thursday 6:00-10: 00 pm

**Email:** [ys580@economics.rutgers.edu](mailto:ys580@economics.rutgers.edu)

**Office Hours:** Wednesday 13:00 – 14:30 through the Canvas virtual meeting (conferences tap)

*This syllabus is subject to change at any time during the session. Please pay attention to announcements in class, email, or on Canvas portal.*

**Course Description:**

Understanding unemployment and job creation have been certainly one of the top questions of economics. Labor Economics is perhaps the most popular application of economic theory. The employment relationship is for most of the individuals, the primary source of income. Therefore, the labor market not only affects the allocation of jobs but also have incidence in every other social outcome. Labor economics aims to understand the behavior of firms and workers in response to general incentives like wages, prices, profits and non-pecuniary features of an employment relationship. In recent decades, field practitioners are making the most relevant contributions to the development and adoption of rigorous empirical methods in modern economics.

This course is an upper-level elective. The goal is to illustrate how microeconomic theory is applied to the analysis of the labor market. It will cover the core models of labor economics from the supply, demand sides and equilibrium characteristics. Next, this course will present how to use those models to analyze a variety of labor-related issues empirically. Topics to be covered include minimum wage, human capital, education, labor market discrimination, union, incentive payment scheme, and immigration. Additionally, this course will help to understand the empirical approach that labor economists use in their research.

**Learning Outcomes:**

The goal is to train students in developing clear thinking and analytical reasoning to solve questions about the labor market. Students will learn:

- The core microeconomics toolset for analysis labor markets.
- How to apply this toolset to analyze public policy and to provide an informed opinion of current policy debates.
- Understand what practitioners in labor economics are doing and how they approach the use of data and empirical methods.

**Prerequisites.** Intermediate Microeconomics and Econometrics.

## Econ 402: Labor Economics Summer 2020

**Textbooks:** The textbook for the class is:

Borjas, G.J. 2019. Labor Economics. 8<sup>th</sup> ed McGraw-Hill Education (as a main textbook)  
You can use seventh or sixth editions of this textbook.

However, you can also read the following books as a complementary source: Ehrenberg, R.G., and R.S. Smith. 2017. Modern Labor Economics: Theory and Public Policy 13<sup>th</sup> ed. Routledge.

**Readings:** Other articles are not required, but certainly help to illustrate applications of models presented and provide an insight to have an informed opinion on current public policy debates. They also help as a reference to the data analysis project. A digital copy of the articles is posted on Canvas, but also you can find them on Libraries Online Catalog.

**Course Website:** Announcements are posted on Canvas and email. Check the Canvas site frequently to get announcements, assignments and answers, readings, lecture notes, data analysis project guide and all additional material. Again, this syllabus provides you with a basic outline of this course and is subject to changes at any time during course.

**Communication:** Due to the Covid-19, email will be the best way to contact me. I recommend you to send me an email under the subject Econ 402. This helps me to find your email easier and answer sooner.

**Lectures:** For the summer, the lectures consist of 4-hour long sessions from 6-10pm, with 20-minute breaks every hour and a half. Leaving the lecture after the break will decrease score in the attending and participation grade. From 9-10pm lectures could continue depending on the conditions of each session. In general, the last one hour can be used as Q&A time. If you have any question on the concept of the model, feel free to ask and I will do my best to help you understand the concept. I understand that it is difficult to focus on the online class because there are so many sources of distraction while taking an online course. Nonetheless, I expect you to have common courtesy towards your instructor and this course.

### Evaluation.

In class assignments, participation, attendance	10%
Quiz	20%
Midterm Exam	30%
Final Exam	40%

## Econ 402: Labor Economics Summer 2020

### Grading Scale

<u>final course score</u>	<u>final course grade</u>
90-100	A
85-89.99	B+
78-84.99	B
73-77.99	C+
65-72.99	C
58-64.99	D
0-57.99	F

**Quiz:** Instead of giving you homework assignments, there will be 4 or 5 quizzes throughout this course. The object of each quiz is to check whether you understand the concept of each chapter well and to adjust the level of course based on the results. Given the number of lectures during summer session, you are highly likely to have a quiz for every chapter. This implies that you are required to attend every class. The quizzes should not be difficult to solve within a time limit if you thoroughly read and go over the textbook.

**Exams:** The midterm and final exams are individually presented. No collaboration of groups of any kind is allowed. The exams can be either multiple choices or essay questions, or just combination of both multiple choices and essays. Exams are open books. The emphasis is on understanding the material and analysis skill, not in the memorization of the content. Review questions are provided with answers so that you can practice before taking each exam. I highly recommend you to review the slides and the textbook to prepare for each exam.

**Extra Credits:** There will be additional questions either on the quizzes or exams. You will be able to earn the extra credits only if you attend the class.

### **Make-up exams:**

Summer School rarely allows for make-up exams. If you cannot take the exams on the date provided, let me know as soon as possible.

**Tips for this class:** Note that additional time and effort is required to complete credit for this course in the summer session. This includes not leaving the lecture after the break. We are all making a big effort here for preparing this class. You will become more efficient if working during the entire 6 weeks consistently, in small to medium chunks of time, that to leave all the work to the end. You will make your life easier and mine if you follow the next suggestions: 1. Be prepared for class, reading the materials before class. 2. Checking emails and Canvas site before class. 3. Be on time and pay attention during lectures. 4. Participate in discussions and ask questions. 4. Take good lecture notes and learn to prepare cheat-sheets for exams.

## **Econ 402: Labor Economics Summer 2020**

**Academic Dishonesty:** Please review the University's Academic Integrity policy: <http://academicintegrity.rutgers.edu/>. Academic misconduct will be taken very seriously. You are responsible for reading and adhering to Rutgers plagiarism and student academic integrity guidelines.

**Regrading policy:** In case you believe a score on midterm or homework is assigned incorrectly, you must turn in the exam with a 1-page description of the situation regarding a question with a complete explanation of why you believe deserve more credit. For the Final exam probably, there will be no time for this kind of claims.

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### Course Schedule

Note that dates for quizzes can be rescheduled. Please pay attention to announcements on Canvas in case of any change in schedule.

<b>Date</b>	<b>Topic</b>	<b>Quiz Dates</b>
<b>May 26</b>	Introduction: US labor market facts	
	Review Econometrics and Intermediate Micro	
<b>May 28</b>	Labor Supply: A model for the decision to work.	
	Labor Supply: Empirical Analysis of Labor Supply	
<b>June 2</b>	Labor Supply: Work incentives and Social Welfare Programs	Quiz 1
	Labor Demand: The firm decision in the short run and the long run. Substitution and Scale Effects	
<b>June 4</b>	Labor Demand: Wage Elasticities of demand. Substitutes and complements in production	Quiz 2
	Labor Market Equilibrium: Payroll Taxes and Mandated Benefits	
<b>June 9</b>	Labor Market Equilibrium: Monopsony	Quiz 3
	Review Session for Midterm	
<b>June 11</b>	Midterm Exam	
<b>June 16</b>	Compensating Wage Differentials	
	Human Capital: Return to Education, and Signaling	
<b>June 18</b>	Minimum Wage revisited and empirical debates	Quiz 4
	Labor Market Discrimination: Types of Discrimination	
<b>June 23</b>	Labor Market Discrimination: Measuring Discrimination	
	Labor Unions	Quiz 5
<b>June 25</b>	Incentive Pay and Productivity Compensation within Firms	
	Labor Mobility	
<b>June 30</b>	Review Session for Final Exam	
<b>July 2</b>	Final Exam	

## Econ 402: Labor Economics Summer 2020

### Course Readings.

It is important to read at least the Chapter of the textbook that goes along with each topic before class and certainly before exams! The articles are not required but provide a broader understanding of each topic and policy implications. Additional articles could be announced via Canvas site.

#### 1. Introduction

- a) Basic Facts of the USA Labor Market. Measuring the Labor Force.  
Borjas. Chapter 1. Chapter 2: 2.1 and 2.2

Andrew Blank and Roxanna Edwards, "Tight labor market continues in 2018 as the unemployment rate falls to a 49-year low," Monthly Labor Review, U.S. Bureau of Labor Statistics, May 2019, <https://doi.org/10.21916/mlr.2019.9>

- b) Econometrics Review: Regression Analysis. Missing Variables Problem.  
Borjas. Chapter 1. Appendix
- c) Intermediate Microeconomics Review: Utility and Indifference Curves, Consumer Problem Price and Income Elasticity of Demand.  
Chapter 2 and 3. Nicholson, W., and C.M. Snyder. 2014. Intermediate Microeconomics and Its Application. Cengage Learning.

#### 2. Labor Supply

- a) A model of the decision to work.  
Borjas. Chapter 2: 2.3-2.7

Blau, Francine D., and Lawrence M. Kahn. 2007. "Changes in the Labor Supply Behavior of Married Women: 1980–2000." Journal of Labor Economics 25 (3): 393–438.  
<https://doi.org/10.1086/513416>.

- b) Empirical Analysis of Labor Supply  
Borjas Chapter 2: 2.8.

Cesarini, David, Erik Lindqvist, Matthew J. Notowidigdo, and Robert Östling. 2017. "The Effect of Wealth on Individual and Household Labor Supply: Evidence from Swedish Lotteries." American Economic Review 107 (12): 3917–46. <https://doi.org/10.1257/aer.20151589>.  
Blog: <https://www.povertyactionlab.org/evaluation/how-does-winning-lottery-affect-labor-supply-evidence-sweden>

- c) Work incentives and Social Welfare Programs  
Borjas. Chapter 2: 2.11, 2.12, 2.14.

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Jones, Damon, and Ioana Marinescu. 2018. “The Labor Market Impacts of Universal and Permanent Cash Transfers: Evidence from the Alaska Permanent Fund.” National Bureau of Economic Research Working Paper Series No. 24312. <https://doi.org/10.3386/w24312>.

### 3. Labor Demand

a) The firm decision in the short run and the long run. Substitution and Scale Effects.  
Borjas. Chapter 3: 3.1-3.4  
Ehrenberg and Smith: Chapter 3: appendix 3A

b) Wage Elasticities of demand. Substitutes and complements in production.  
Borjas. Chapter 3: 3.5-3.7

Hunt, Jennifer. 1999. “Has Work-Sharing Worked in Germany?\*.” The Quarterly Journal of Economics 114 (1): 117–48. <https://doi.org/10.1162/003355399555963>.

Crépon, Bruno, and Francis Kramarz. 2002. “Employed 40 Hours or Not Employed 39: Lessons from the 1982 Mandatory Reduction of the Workweek.” Journal of Political Economy 110 (6): 1355–89. <https://doi.org/10.1086/342807>.

### 4. Labor Market Equilibrium.

a) Equilibrium in the labor market. Equilibrium across Labor Markets. Payroll Taxes and Mandated Benefits

Borjas. Chapter 4: 4.1-4.4

b) Monopsony  
Borjas. Chapter 4: 4.9

Azar, José A, Ioana Marinescu, Marshall I Steinbaum, and Bledi Taska. 2018. “Concentration in US Labor Markets: Evidence From Online Vacancy Data.” National Bureau of Economic Research Working Paper Series No. 24395. <https://doi.org/10.3386/w24395>.

Blog: <http://rooseveltinstitute.org/how-widespread-labor-monopsony-some-new-results-suggest-its-pervasive/>.

### 5. Compensating Wage Differentials

Borjas. Chapter 5

### 6. Human Capital: Education and Training

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a) Education: The Schooling Model. Schoolings and Earnings. Estimating the returns to Education and Signaling model.

Borjas. Chapter 6. 6.2-6.9

Zimmerman, Seth D. 2014. "The Returns to College Admission for Academically Marginal Students." *Journal of Labor Economics* 32 (4): 711–54. <https://doi.org/10.1086/676661>.

Media Coverage: <https://slate.com/business/2014/09/college-graduate-vs-high-school-graduate-salaries.html>

b) Training: On the job Training. Training Programs. Mincer Equation.

Borjas. Chapter 7.1-7.2-7.3-7.4

LaLonde, Robert J. 1986. "Evaluating the Econometric Evaluations of Training Programs with Experimental Data." *The American Economic Review* 76 (4): 604–20.

Hentschel, J. Skills or jobs: Which comes first?. *IZA World of Labor* 2017: 339

doi: 10.15185/izawol.339

Kluve, J. Youth labor market interventions. *IZA World of Labor* 2014: 106 doi:

10.15185/izawol.106

### **7. Minimum Wage.**

a) Minimum Wage Theory revisited. Efficiency Wages.

Borjas. Chapter 3.10 Chapter 11.6

Paul Krugman. Notes on Walmart and Wages (Wonkish). *The New York Times* 2015.

b) Recent Empirical Debates: Employment.

Card, David, and Alan B. Krueger. 1994. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania." *The American Economic Review* 84 (4): 772–93.

Dube, Arindrajit, T. William Lester, and Michael Reich. 2010. "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties." *The Review of Economics and Statistics* 92 (4): 945–64. [https://doi.org/10.1162/REST\\_a\\_00039](https://doi.org/10.1162/REST_a_00039).

Neumark, D. Employment effects of minimum wages. *IZA World of Labor* 2018: 6 doi:

10.15185/izawol.6.v2



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Neumark, David, J. M. Ian Salas, and William Wascher. 2014. “Revisiting the Minimum Wage—Employment Debate: Throwing Out the Baby with the Bathwater?” *ILR Review* 67 (3\_suppl): 608–48. <https://doi.org/10.1177/00197939140670S307>.

c) Recent Empirical Debates: Minimum Wage and Poverty.

Arindrajit Dube. Minimum wages and the distribution of family incomes in the United States. <https://equitablegrowth.org/minimum-wages-and-the-distribution-of-family-incomes-in-the-us/>

David Cooper. Raising the federal minimum wage to \$15 by 2024 would lift pay for nearly 40 million workers. <https://www.epi.org/publication/raising-the-federal-minimum-wage-to-15-by-2024-would-lift-pay-for-nearly-40-million-workers/>

### 8. Discrimination in the labor market.

a) Gender and Race Wage Gaps  
Borjas Chapter 9.7-9.11

Kleven, Henrik, Camille Landais, Johanna Posch, Andreas Steinhauer, and Josef Zweimüller. 2019. “Child Penalties across Countries: Evidence and Explanations.” *AEA Papers and Proceedings* 109: 122–26. <https://doi.org/10.1257/pandp.20191078>.

Blog Coverage: <https://voxeu.org/article/child-penalties-across-countries-evidence-and-explanations>

b) Employer Discrimination. Customer Discrimination. Statistical Discrimination

Borjas. Chapter 9.2-9.5

Bertrand, Marianne, and Sendhil Mullainathan. 2004. “Are Emily and Greg More Employable Than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination.” *American Economic Review* 94 (4): 991–1013. <https://doi.org/10.1257/0002828042002561>.

c) Measuring Discrimination and Policy Application  
Borjas Chapter 9.8-9.11

d) Additional papers will be posted on the Canvas portal and you are required to read them.

### 9. Labor Unions

Models of Unions and efficient contracts. Union Wage Effects.  
Borjas. Chapter 10

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DiNardo, John, and David S. Lee. 2004. "Economic Impacts of New Unionization on Private Sector Employers: 1984–2001\*." *The Quarterly Journal of Economics* 119 (4): 1383–1441. <https://doi.org/10.1162/0033553042476189>.

### **10. Incentive Pay and Productivity compensation within firms.**

Piece Rates and Time Rates. Tournaments.

Borjas. Chapter 11. 11.1-11.5

CEO Compensation:

Mankiw, N. Gregory. 2013. "Defending the One Percent." *Journal of Economic Perspectives* 27 (3): 21–34. <https://doi.org/10.1257/jep.27.3.21>.

CEO compensation surged in 2017. Report • By Lawrence Mishel and Jessica Schieder • August 16, 2018. <https://www.epi.org/publication/ceo-compensation-surged-in-2017/>

### **11. Labor Mobility**

Borjas. Chapter 8. 8.1-8.9

## **Econ 402: Labor Economics Summer 2020**

### **Student Wellness Services**

#### **CAPS (Counseling, ADAP and Psychiatric Services)**

Non-emergency psychological health.

(848) 932-7884 17 Senior St, New Brunswick, NJ 08901

[www.rhscaps.rutgers.edu](http://www.rhscaps.rutgers.edu)

#### **VPVA (Violence Prevention and Victim Assistance)**

(848) 932-1181 / 3 Bartlett St, New Brunswick, NJ 08901 [www.vpva.rutgers.edu](http://www.vpva.rutgers.edu)

To reach staff during office hours when the university is open, or to reach an advocate after hours, call 848-932-1181.

#### **Disability Services**

(848) 445-6800 / Lucy Stone Hall, Suite A145, Livingston campus, 54 Joyce Kilmer Ave, Piscataway, NJ 08854 / <http://ods.rutgers.edu>

#### **Scarlet Listeners**

(732) 247-5555 <http://www.scarletlisteners.com/>

Free and confidential peer counseling and referral hotline, providing a comforting and supportive safe space.