

Economics 415-002: Economics of Employment Relations

Spring 2015

Mondays, 5:30-8:10 PM
Bolton B40

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Office hours* Mondays and Wednesdays, 3:30-5:00 PM

- * The scheduled office hours are times during which I will be available to meet with students on a walk-in basis. Students who wish to meet with me at other times are invited to contact me to set up a special appointment (attendance mandatory).

Course Web Site on D2L: <https://uwm.courses.wisconsin.edu/d2l/home/453204>

Goals of This Course: This course will introduce students to the main topics, ideas, issues, and methodologies of labor economics. The goals are as follows: (1) to become familiar with basic economic theories about labor markets and labor market institutions, (2) to learn some empirical facts related to those theories, and (3) to develop an ability to think analytically and quantitatively about issues related to labor economics. See the handout entitled “The Economic Perspective” for an extended description of “the economic approach.”

Prerequisites: Economics 103 (Principles of Microeconomics)

Textbook (available at the University bookstore): The course will emphasize the material covered during lectures, but a textbook is also available as a study guide:

Campbell R. McConnell, Stanley L. Brue, and David A. Macpherson. 2014. *Contemporary Labor Economics*, 10th edition (Boston, MA: Irwin/McGraw Hill).

NOTE: All editions after the 5th are very similar, so please feel free to use them instead. For what it may be worth, older editions are often much less expensive.

Four other texts you might consider reading for a different presentation from what McConnell *et al.* offer. They should be on (physical) reserve in the UWM library:

1. Lloyd G. Reynolds, Stanley H. Masters, and Colletta H. Moser. 1998. *Labor Economics and Labor Relations*, 11th ed. (Upper Saddle River, NJ: Prentice Hall).
2. Bruce E. Kaufman and Julie L. Hotchkiss. 2006. *The Economics of Labor Markets*, 7th ed. (Fort Worth, TX: Dryden Press).
3. Ehrenberg, Ronald G., and Robert S. Smith. 2014. *Modern Labor Economics: Theory and Public Policy*, 12th ed. (Boston, MA: Prentice Hall). [A bit more advanced.]
4. Francine D. Blau, Marianne A. Ferber, and Anne E. Winkler. 2013. *The Economics of Men, Women, and Work*, 7th ed. (Upper Saddle River, NJ: Prentice Hall). [Labor econ from a feminist perspective.]

Grading

Undergraduate students: Grades will be based on homework (15 percent), class participation (5 percent), two midterm exams (50 percent), and the final exam (30 percent). However, your grade may be reduced for poor attendance and/or tardiness. See below for a description of each component.

Graduate students: Grades will be based on homework (10 percent), class participation (5 percent), two midterm exams (50 percent), a final exam (25 percent), and a paper (10 percent). See below for a description of each component.

- 1. Homework:** There will be 8 homework assignments during the semester. They can be downloaded from the course page on D2L. The purpose of homework is not to *test* your understanding (that is what exams are for), but rather to *develop* it. This idea guides the homework policies in this class:
 - a. The goal in grading homework is to reward the effort to understand, rather than immediate understanding itself. It is okay to make mistakes—sometimes you can learn a lot from them, provided you put in some thought and effort. In keeping with this, you will receive full credit for any homework assignment on which you display a reasonable effort to answer the questions.
 - b. Because discussion promotes learning, students are encouraged to work together and discuss homework assignments. However, each student must submit assignments individually—in his or her own words—and properly acknowledge all sources and assistance received.
 - c. Homework must be turned in on time. Late work will not be accepted.

2. Class Participation: Obviously, you will learn more (and probably a lot more) if you are actively involved in the class. Beyond that, your active participation will help your *classmates* learn more as well. For instance, when you ask a question in class, you identify a concern that is likely shared by many of your fellow students, and bringing up a new example in discussion helps others see how the material can be applied in practice.

Accordingly, part of your grade will reward class participation. Everyone will start with a B on this factor, but that mark will be raised or lowered throughout the semester depending on how much you participate. (The average mark on this part has historically been in the A-/B+ range.) Since everyone will be better off if the class stays together, you may also receive participation credit for attending the professor's office hours with questions about substantive material from the course.

3. Exams: There will be two midterm exams and a cumulative final exam. Each exam will test students' understanding of course material and their ability to apply these theories to specific real-world problems. Most questions will be of the "short answer" variety (where the desired answer is 1-2 sentences on the topic), though some may be a bit more involved. There will be no "multiple choice" questions. Sample exams are available on the course page on D2L.

Midterm exam dates: March 2, April 13

Final exam date: May 11, 5:30-7:30 PM

The first exam will cover the broad model of labor supply and demand, the determinants of labor supply, human capital, and possibly migration. The second exam will cover labor demand, personnel economics, and the wage structure. The final exam is comprehensive, but it will primarily emphasize material not addressed on the first two exams, specifically labor unions, discrimination, and the distribution of income.

4. Paper (Graduate students only): The graduate students in the class will be assigned a short paper (about 5 pages) on the economics of compensation. The specific topic to be addressed will be announced in mid-semester, and the paper will be due on **April 20**.

Course and Departmental Policies

1. Attendance and Promptness Policy:

Attendance and promptness are mandatory. Both absences and entering/exiting the class during lectures are unfair to other students: absences make it difficult to keep everyone “on the same page,” and late arrivals/early exits create a distraction.

These considerations will be factored into undergraduate students’ grades. If a student misses more than two class periods, his or her grade shall be reduced by two percentage points for each additional absence. For example, a student who misses four classes will incur a penalty of 4 percentage points, which is likely to make a difference of about ½ letter grade (e.g., B instead of B+).

Students who arrive after attendance has been taken must notify the professor after the class session in order to assure that they receive credit for attending.

Absences may be excused in exceptional circumstances—such as when a student is ill, attending a funeral, or observing a religious holiday. (Vacations are NOT exceptional circumstances.) It is the student’s responsibility to inform the professor of the special circumstances. Those are also the only circumstances in which any student who misses an exam will be allowed to take a makeup exam.

In addition, if class extends beyond the end of the scheduled class period, you may leave without fear of penalty. This situation will not arise often—only when an extra minute or two is needed to finish a thought or answer questions.

2. Clarity Policy:

No credit will be granted for work that is unintelligible. This includes, but not exclusively, work that is illegible, incoherently organized, or poorly worded.

3. Academic Honesty Policy:

For the protection of honest students, **academic dishonesty—including all forms of cheating and plagiarism—will not be tolerated.** Violators will be reported to university administrators for disciplinary action. See the university’s web page on academic misconduct for information about unacceptable behaviors and their consequences: http://www4.uwm.edu/acad_aff/policy/academicmisconduct.cfm.

Permission is hereby granted for students to collaborate on all homework assignments (but not exams!), as discussed above in the section on “homework.” Note that even if a group of students works together, each student must submit his or her assignment individually.

4. Cellular Telephones:

In order to prevent class disruptions and academic dishonesty, cellular telephones should be turned off and put away during both lectures and exams.

5. Accommodations and Other Departmental/University Policies:

Information on UWM’s and the Department of Economics’ official policies on participation by students with disabilities, accommodation for religious observances, academic conduct, complaint procedures, grade appeal procedures, sexual harassment, incompletes, and other standing policies is available in the Economics Department office or at <http://www.uwm.edu/Dept/SecU/SyllabusLinks.pdf>. Students needing accommodations of any sort (e.g., for disabilities or religious observances) should contact me during the first two weeks of class.

Expectations and General Orientation:

- Plan to spend 1 to 2 hours on each homework assignment. If it takes you longer, consider coming to my office hours or making an appointment to see if there is any way to streamline the process.
- The course will cover one or two chapters from the textbook in a typical week.
- Students should come to class prepared. At the least, this means skimming over your notes from the last class session to remind yourself where we are. Obviously, it would be better if you would do more than that—read all assignments, study your notes, identify questions you have, etc.
- Attendance and promptness are mandatory. See above.
- Please come to my office hours or make an appointment to resolve any concerns or difficulties you may have at any point during the semester.

Expected Time Commitment

Class meetings and final exam:	44 hours
Problem sets (8 @ 1.5 hours each):	12 hours
Reading (13 chapters @ 2 hours each):	26 hours
Review/Study (5 hours/week):	<u>80 hours</u>
	162 hours across the semester

Note that this is merely an estimate for an average student; actual time is likely to vary widely across students. Graduate students will likely devote less time to study, but they will also spend about 10 hours on their papers.

Course Narrative

There are two main schools of thought in labor economics: neoclassical and institutional. Neoclassical labor economists generally view the labor market as similar to markets for most other goods (oil, lumber, automobiles—you name it), and they are primarily interested in the broad forces that shape the supply of workers and the demand for them. In contrast, institutional labor economists are more interested in the effects of factors unique to labor markets: labor unions, discrimination, workplace rules, and the internal organization of the firm. It is probably fair to say that more economists subscribe to the neoclassical view, but the institutionalist school remains important as well. At any rate there is enough overlap and blending of the two that it is impossible to draw precise boundaries between the two.

This course surveys both schools of thought. It begins by covering the main features of neoclassical labor economics—factors determining the supply and demand of workers. The major forces discussed in this unit are the number of workers in a labor market, their willingness to sell their time, and employers' willingness to pay them. While there will undoubtedly be some variation in the outcomes experienced by different people, we will mainly discuss workers (and jobs) as if they are interchangeable with one another, at least within a particular occupation, industry, or location. (For instance, we might speak of New Jersey pharmacists as if they were all the same.) Obviously this isn't perfectly realistic, but it is an appropriate simplification insofar as we are mostly concerned about *average and aggregate* levels of wages and employment.

Of course, we are not always solely concerned with averages or aggregates. The second section of the course thus covers topics related to the internal working of firms. This is the only point in the course where we will worry much about the distinction between wages and other forms of compensation (e.g., subsidized health insurance, better working conditions, etc.). We will also discuss the economics of compensation policies that seek to resolve conflicts in the goals of managers and workers (the "principal-agent problem"), compensation of high-level executives, and some factors that influence how the workload is divided within the firm.

The final unit examines the variability of wages across people. Among other things, we will study the structure of wages—that is, how wages vary across occupations, industries, and demographic groups—as well as recent trends in the inequality of wages across people and theories that purport to explain those trends. We will also look at two major institutions that create differences in wages: discrimination and labor unions.

Course Outline (Expect to spend about one week on each “capital letter” of the outline, with some variation.)

- I. Overview and Review (Chapter 1 and parts of Chapter 6 of McConnell *et al.*)
- II. Labor Supply
 - A. Population of Workers (Chapter 3)
 - B. Labor Force Participation and Average Hours of Work Supplied (Chapters 2-3)
 - C. Human Capital and the Quality of the Labor Supply (Chapter 4)
 - D. Migration (Chapter 9)

[EXAM 1 ABOUT HERE]

- III. Labor Demand (Chapter 5)
 - A. Production Functions and Profit-Maximizing Producers
 - B. Demand for Labor in the Short-Run
 - C. Demand for Labor in the Long-Run: Substituting Machines for Workers and Vice-Verse
- IV. Personnel Economics (Chapter 7)
 - A. Fringe Benefits
 - B. Principal-Agent Problems: Overcoming the Conflicting Goals of Workers and Firms
 - C. Executive Salaries: Why Do Top Executives Earn So Much?
 - D. The Structure of Work: Dividing Tasks among Workers and Teams of Workers
- V. Wage Structure: Who Earns How Much and Why (Chapters 8 and 13)

[EXAM 2 ABOUT HERE]

- VI. Labor Market Institutions
 - A. Labor Unions and Their Impact on Wages, Employment, Productivity, and Profits (Chs. 10-11)
 - B. Theories and Evidence about Labor Market Discrimination (Chapter 14)
- VII. Distribution of Income: Growing Inequality (Chapter 16)