INTRODUCTION TO LABOR ECONOMICS

Lectures and Sections
This is Section 4566 of E 304. Each week there will be two lectures of 75 minutes on Tuesday and Thursday, from 10:30 AM to 11:45 AM. The location is SL 051 (Engineering/Science and Technology Building).

Course Description
The course is an undergraduate course in labor economics, with an eye to the link between research and public policy. We will emphasize applied microeconomic theory and empirical analysis. The course will cover topics related to the study of labor markets, these include the theory of static and dynamic labor supply, theories of labor demand, labor market equilibrium and the theory of compensating wage differences, agency problems, human capital and education production, migration, labor market discrimination, and labor union.

Modern labor economics has drawn on neoclassical theory of consumer and firm to guide its investigation, has been decidedly empirical, and has been the “proving ground” for many advances in econometric methods. My treatment of each topic consists of the basic theoretical model and the empirical validity of the model, followed by discussions of two or three recent empirical papers. Students will also learn how to carry out econometric analysis using STATA.

This course is a mixture of straight lecture and student participation. I will introduce topics and the main modeling and estimation issues. I will ask all students to read the empirical articles carefully and be prepared to discuss in class.

Prerequisites
Prerequisites include basic microeconomics (E 201) and some knowledge in statistics or econometrics. Also helpful is some experience with statistical computing, such as using STATA or SAS.

Required and Optional Texts

Lecture notes and journal articles are integral part of required readings; they will be posted via OnCourse according to the course schedule.


**Grading**
The grade for the course is determined by performance on a midterm exam (20%), a final exam (40%), and four problem sets (10% each). Strong class participation, including regular attendance, adds 10% bonus.

No excuse other than extreme emergency will be accepted for missing an exam. If an emergency does arise, please email me before the exam to inform me of the problem. It is important to remember there will be no make-up exam. If you miss the exam due to documented illness or family emergency, your grade will be computed without the exam with weights on other components adjusted to sum to unity. If there is no documentation of the emergency or you fail to notify me in advance, you will not be offered a re-weighted grade, and your grade for the missed exam will be zero.

**Problem Sets**
The four problem sets include selected review questions from the end of chapters, other analytical problems, and empirical exercises.

Students are encouraged to work together on the problem sets, but each student must turn in his or her own version of the assignment. In my experience, neater problem sets receive higher grade conditioning on content. As such, you are encouraged to type (but not required) your assignments. No late problem sets will be accepted for any reason.

**Computing Software**
The statistical software package for this course is STATA, which is available in Liberal Arts labs at Cavanaugh Hall and computer labs at Business/SPEA Building, but you are welcome to use other packages such as SAS, SPSS, Eview, or TSP, or matrix programming languages such as
Matlab or Gauss, for the problem sets if you like.

There will be “hands-on” STATA sessions in labs during the semester to aid you with the empirical problem sets.

Lots of information on STATA can be found at: 
http://www.stata.com/links/resources1.html

You may purchase your own copy of STATA software at a very low rate (due to a special contract between STATA and IUPUI) from www.stata.com, but this is strictly optional.

OnCourse and Email
All the course announcements and related materials (problem sets and solutions, data sets, exams and answers, lecture notes, etc.) will be posted through OnCourse website according to the schedule, you should check it periodically to get updated information about the course.

I will also use email to distribute information about the course. If you are not getting your email, you need to make sure that I have your correct email address. I am not responsible for your failure to receive course emails.

Americans with Disabilities Act
Adaptive Educational Services (AES) provides accommodations for students with special challenges or disabilities that may affect their classroom performance. If you are eligible you may register with AES by calling 274-3241. Visit http://www.life.iupui.edu/aes/ for more information.

Policies on Academic Misconduct
Students must follow the Code of Student Rights, Responsibilities, and Conduct (http://life.iupui.edu/rights/docs/CodeofConduct.pdf). Penalties can be applied for cheating, fabrication, plagiarism, or sabotaging the work of other students. In particular, plagiarism occurs when you adopt, reproduce, or paraphrase the ideas, words, or statements of another person without appropriate acknowledgment. Quotes and paraphrases should include a complete reference. Facts, statistics, and the like should include references unless the information is common knowledge. When in doubt about any of these policies, ask the instructor.
Course Outline and Readings
(* indicates required readings)

1. Overview of labor market and the framework of supply and demand

Readings:

*Borjas, Chapter 1 and Chapter 4.


Empirical application: *The labor market impact of immigration*

*Borjas, Appendix to Chapter 1.


2. Labor supply and time allocation models

Readings:

*Borjas, Chapter 2.

Empirical application: *Labor supply effect of EITC*


Empirical application: *Intertemporal substitution*


Empirical application: *Income effects*


3. Economics of family and household decision-making

Readings:

*Borjas, Chapter 9.12.


Empirical application: *Children and parents’ labor supply*


4. Labor demand, the minimum wage, and monopsony

Readings:

*Borjas, Chapter 3.
Empirical application: *Minimum wage*


5. Human capital models

Readings:

*Borjas, Chapter 6.

Goldin and Katz, Chapter 1.

Empirical application: *Estimating the returns to education*


Empirical application: *Does school quality matter*

Empirical application: *Returns to GED*


6. Equalizing wage differentials and self-selection in the labor market

Readings:

*Borjas, Chapter 5.

Empirical application: *Compensating differentials and the market for sex*


7. Changes in the wage structure, wage inequality, and unemployment

Readings:

*Borjas, Chapter 7 and Chapter 12.

Goldin and Katz, Chapter 2, 3, 8.


Empirical application: *Computers and the change of wage structure*


8. Discrimination

Readings:

*Borjas, Chapter 9.

**Empirical application: Experiment and “natural” experiment evidence of labor market discrimination**


9. Economics of unions

Readings:

*Borjas, Chapter 10.

**Empirical application: Union relative wage effects**

Course Schedule

Aug. 24     Overview
Aug. 26     The framework of supply and demand
Aug. 31     Regression model and difference-in-differences
Sep. 2      STATA session (CA 436)
Sep. 7      Labor supply I
Sep. 9      Labor supply II
Sep. 14     Labor supply III
Sep. 16     Labor supply IV
Sep. 21     Economics of family I
Sep. 23     Economics of family II
Sep. 28     Labor demand I
Sep. 30     Labor demand II
Oct. 5      Labor demand III
Oct. 7      Labor demand IV
Oct. 12     Human capital I
Oct. 14     Human capital II
Oct. 19     Fall Break
Oct. 21     Midterm Exam
Oct. 26     Human capital III
Oct. 28     Human capital IV
Nov. 2      Human capital V
Nov. 4      Compensating wage differentials I
Nov. 9      Compensating wage differentials II
Nov. 11     Wage structure I
Nov. 16     Wage structure II
Nov. 18     Wage structure III
Nov. 23     Wage structure IV
Nov. 25     Thanksgiving Break
Nov. 30     Discrimination I
Dec. 2      Discrimination II
Dec. 7      Unions I
Dec. 9      Unions II
Dec. 16     10:30 AM-12:30 PM Final Exam