

Labour Economics

Lecturers: Sergey Y. Roshchin, Inna O. Maltseva

Class teachers: Sergey Y. Roshchin, Inna O. Maltseva

Course description

The course provides basic knowledge of labor economics. It analyzes behavior of the main labor market actors: households, firms and government. The course examines the principles of determination of labor supply and labor demand, rates of employment and unemployment, human capital accumulation and labor mobility. In focus of the course there are also issues of internal labor markets operating with the stress on firm's wage policy. The course also contains analysis of labor market institutions such as unions and employment protection legislation.

Prerequisites

Students are supposed to be competent in basic economic analysis up to the level of the Intermediate Microeconomics and Macroeconomics, as well as knowledge of basic elements of Econometrics.

Teaching objectives

The main goal of the course is to introduce the students to the fundamental theories, methods of analysis and applied aspects, which form the modern labor market economics. By the end of the course the students are supposed to have knowledge of:

- topics and main problems analyzed in labor economics;
- principles of labor market operating;
- directions of Russian and other countries labor markets' development
- analytic instruments of micro- and macroanalysis courses that could be applied to the labor market research;
- sources of statistic data on the labor market as well as basic skills for its using in research work

Assessment

While teaching the course the following teaching methods and forms of control are used:

- Lectures
- Classes
- Teachers' consultations
- Self-study
- Written home-assignments (3–4 per course)
- Multiple-choice tests during the each class
- Essay writing and presentation
- Final exam

Grade determination

The final mark is determined as follows:

- Home assignments — 10%
- Activity during the classes and tests' results — 10%
- Presentation of the essay — 20%
- Final written exam — 60%

Main reading

1. Borjas George J., Labor Economics, 3d edition, McGraw Hill / Irwin, 2005 [B]
2. Ehrenberg, R., and R. Smith. Modern Labor Economics: Theory and Public Policy. 9th ed. Reading, MA: Addison-Wesley, 2005 (is available in Russian translation: Эренберг Р., Смит Р.С. Современная экономика труда. Теория и государственная политика. — М.: Изд-во Моск. ун-та, 1996. — 800 с.) [E&S]

Additional reading

1. Колосницына М.Г. Экономика труда: Учебное пособие для студентов бакалавриата экономических вузов. — М.: ИЧП «Издательство Магистр», 1998. — 240 с.; М.: ИКЦ «Академкнига», 2003. — 240 с.
2. Рощин С.Ю., Разумова Т.О. Экономика труда (экономическая теория труда): Учебное пособие. — М.: ИНФРА-М, 2000. — 400 с.

3. Мазин А.Л. Экономика труда. 2-е изд. – М., 2009.
4. Cahuc Pierre, Zylberger Andre, Labor Economics. The MIT Press, 2004.
5. Handbook of Labor Economics, Vol. 1 – 3, ed. by O. Ashenfelter and D. Card, Amsterdam: North Holland.
6. Altonji, J.G., and R. Shakotko (1987) “Do Wages Rise with Job Seniority?” *Review of Economic Studies* 54, 437-459.
7. Blau F.D., and L.M. Kahn (2007) Changes in the Labor Supply Behavior of Married Women: 1980 – 2000. *Journal of Labor Economics*, 25(3): 393-438. (Paper is also available as IZA Discussion Paper No. 2180 (June 2006)).
8. Boeri, T. (2001) “Transition with Labor Supply”, IZA DP No.257.
9. Card, D., and A. Krueger (1994) “Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania”, *American Economic Review* 84: 772-93.
10. Clogg, C., Eliason, S., and K. Leicht. *Analyzing the Labor Force. Concepts, Measures, and Trends*, Kluwer/Plenum, 2001.
11. Dickens, W., and K. Lang (1992) “Labor Market Segmentation Theory: Reconsidering the Evidence”, NBER Working Paper No.4087.
12. DiNardo and D. S. Lee (2004) “Economic Impacts of New Unionization on U.S. Private Sector Employers: 1984-2001”, *Quarterly Journal of Economics* 119: 1383-1442.
13. Gronau, R. (1977) “Leisure, Home Production and Work – The Theory of the Allocation of Time Revisited”, *Journal of Political Economy* 85
14. Konings J., and H. Lehmann (2002) Marshall and Labor Demand in Russia: Going Back to Basics. *Journal of Comparative Economics*, 30: 134-159.
15. Lazear E.P. (1999) “Personnel Economics: Past Lessons and Future Directions”, *Journal of Labor Economics* 17 (2)
16. Moffit, R. (2002) “Welfare Programs and Labor Supply”, NBER Working Paper No. 9168
17. Nickell, Stephen (1997) “Unemployment and Labor Market Rigidities: Europe versus North America”, *Journal of Economic Perspectives* 11 (3): 55-74

18. OECD Employment Outlook, various years
19. Oettinger, Gerald S. (1996) "Statistical Discrimination and the Early Career Evolution of the Black-White Wage Gap", *Journal of Labor Economics* 14 (1): 52-78
20. Topel, Robert (1991) "Specific Capital, Mobility and Wages: Wages Rise with Seniority", *Journal of Political Economy* 99 (1): 145-76
21. Вишнеvская Н. Реформа законодательства о защите занятости и рынок труда // *Мировая экономика и международные отношения*, 2006, № 10, с. 34–42.
22. Заработная плата в России: эволюция и дифференциация / под ред. В. Гимпельсона, Р. Капелюшникова. – М.: Изд. дом ГУ ВШЭ, 2007. – 575 с.
23. Нестандартная занятость в российской экономике. Под ред. В.Е. Гимпельсона, Р.И. Капелюшникова.- М.: ГУ-ВШЭ, 2006.
24. Обзор занятости в России. Вып. 1 (1991 – 2000 гг.). – М.: ТЕИС, 2002. – 352 с. Гл. 1, 2.

Internet resources and databases

Statistical information:

- <http://www.gks.ru>
- <http://laborsta.ilo.org>
- <http://www.ilo.org/public/english/employment/strat/kilm/index.htm>
- <http://www.ilo.org/dyn/lfsurvey/lfsurvey.home>
- <http://www.oecd.org>
- <http://www.nber.org/data>
- <http://www.worldbank.org>
- <http://www.bls.gov/>

Papers in Labor Economics:

- <http://www.iza.org>

- <http://www.jstor.org>
- <http://www.nber.org/pubs.htm>
- <http://new.hse.ru/C3/C18/preprintsID/default.aspx?filter=WP3>
- <http://new.hse.ru/C3/C18/preprintsID/default.aspx?filter=WP15>
- <http://www.eerc.ru/library/default.htm>
- <http://www.wdi.umich.edu/Publications/WorkingPapers>

Course outline

1. Labor Market and Employment Structure of Population

Labor as a subject of study. Labor studies in Russia and in the world. Sources of information about labor market and employment sphere. Classification of employment structure. Labor force, out-of-labor force, employment and unemployment: methods of measurement. Labor force participation rates: international trends, gender and age peculiarities. The actors in the labor market. Labor demand and labor supply. Wage as a price for labor. Segmented and dual labor markets. Local labor markets.

(B Ch 1; E&S Chs 1, 2)

2. Labor Supply

Basic model of labor supply. Reservation wage. Decision about entering the labor market: effects of worker's preferences and nonlabor income. Determinants of labor supply. Income and substitution effects. Individual and market labor supply curves. Labor supply elasticity: measurement and examples of empirical estimations. Labor supply with household production. Gender and age differences in labor supply. Moonlight jobs and secondary employment. Effect of the fixed and time costs on labor supply. Taxation, welfare programs and work incentives. International comparisons in labor supply.

(B Chs 2, 3; E&S Chs 6, 7)

3. Labor Demand

Labor demand as an employment decision. Labor demand in short and long run. Substitution and scale effects. Labor demand curves of the firm, industry and market. Specific functional forms for factor demands. Labor demand elasticity. Elasticity of substitution. Slutsky equation: compensated and noncompensated labor demand elasticity. Hicks-Marshall Rules of derived demand. Labor demand with many inputs: substitutions and complementarities. International comparisons in labor supply.

(B Ch 4; E&S Chs 3, 4, 5)

4. Labor Market Equilibrium

Effects of structure of goods and labor markets on labor demand. Equilibrium in cases of perfect competition, monopoly and monopsony. Effects of shocks of labor demand and labor supply on labor market equilibrium. Methods of adjustment of labor market: “exit” and “voice” principles. Flexibility of labor market and its kinds. Effects of taxation and subsidies on labor market equilibrium. Features of adjustment of Russian labor market: wage arrears and informal contracts.

(B Ch 5; E&S Chs 2, 3)

5. Human Capital

Human capital: definition, elements, ways of accumulation. Model of decision about investment in education. Age-earning profiles. Methods of estimation of investment in education effectiveness: net present value and internal rate of return. Optimal choice of length of schooling: effects of abilities and financial opportunities. Estimation of return to human capital: Mincer equation. “Ability” bias and ways of its elimination: natural experiments and instrumental variables. Empirical estimations of return to human capital in Russia and other countries. Education as a signal device. General and specific human capital: firm’s decision about investment. On-the-job training.

(B Ch 7; E&S Chs 5, 9)

6. Wage Inequality: Compensating Wage Differentials

Income and its classifications. Structure of income. Types of income distribution. Measurement of income inequality. Wage as a base of households’ income. Facts about regional, industrial, occupational wage differences. Causes for wage differences: workers’ and job’s heterogeneity, barriers for mobility, discrimination, unions, monopsonies. Theory of compensating wage differentials. Hedonic wage curve. Empirical verification of theory of compensating differentials in wages. Role of government in safety and health regulation. Optimal structure of labor compensation: decision about proportion of wage and fringe benefits.

(B Ch 6; E&S Ch 8)

7. Wage Inequality: Labor Market Discrimination

Labor market discrimination: definition and main types. G. Becker’s classical discrimination model. Individual prejudices as a source of discrimination. Monopsony power as a source of discrimination. Imperfect information as a source of discrimination. Imperfect information and statistical discrimination. Wage gap and methods of its measurement. Occupational segregation and its effect on gender wage gap. Anti-discrimination policy.

(B Ch 10; E&S Ch 12)

8. Wage Inequality: Unions

Unions as labor market institution. Economic and politic goals of unions. Monopoly models of unions' behavior. Wage bill and rent maximization. Concept of infra-marginal (economic) rent of union. Explanation of differences in people's attitude towards unions. Models of agreement between unions and firms. Efficient bargaining and contract curve. Models of strikes: estimation of probability and length. Collective agreement: economic contents and legal regulation. Effects of unions on labor market and economy: theory and empirical evidences.

(B Ch 11; E&S Ch 13)

9. Labor Mobility

Classification of types of labor mobility. Mismatching between job and worker as a reason for labor mobility. Shocks of derived demand and labor mobility. Specific human capital, quits and lay-offs. Measurement of labor mobility. International empirical estimates of labor mobility. Geographic migration as a human capital investment. Determinants of individual and family decision about migration. Immigration and emigration. Peculiarities of qualified and non-qualified workers' migration. Self-selection of immigrant flows: Roy model. Effects of immigration on wages and employment. Main migration flows in Russia and other countries. Government regulation of labor migration.

(B Ch 9; E&S Ch 10)

10. Internal Labor Markets and Wage Policy of the Firm

Peculiarities of internal labor market. Causes of existence of internal labor markets: investment in specific human capital, transaction costs, selection problem. Interactions between internal and external labor markets: ports of entry and exit. Employment contracts: problems of uncertainty and asymmetric information. Workers' opportunistic behavior and ways for its restriction. Types of intrafirm systems of wage compensation. Piece rate vs time rate. Work incentives and delayed compensation. Empirical evidences of correlation between tenure and wages. Conception of efficiency wage: Solow model, shirking model, turnover model. Bonuses, profit sharing and team incentives. Careers and intrafirm mobility. Role of career ladders. Tournaments as a base for promotion.

(B Ch 12; E&S Ch 11)

11. Unemployment and Job Search

Unemployment: issues of definition and measurement. Unemployment rate. Types of unemployment. Causes of unemployment: classical, Keynesian and neokeynesian approaches. Wages rigidity as a cause of unemployment. Hysteresis effect. Unemployment and inflation: Phillips curve. Natural rate of unemployment. Non-accelerated inflation rate of unemployment (NAIRU). Beveridge curve: vacant jobs and level of unemployment. Beveridge curve and natural unemployment rate. Labor market flows and steady-state rate of unemployment.

Microeconomics of unemployment: job search models. Wage offer distribution. Models of non-sequential and sequential search. Determination of acceptable wage. Unemployment compensation and duration of job search.

(B Ch 13; E&S Chs 16, 17)

12. Labor Market Policy

Labor market failures and state policy. Goals and methods of regulation. Macroeconomic policy and its effect on labor market. Institutional peculiarities of labor market regulation. Employment protect legislation: main principles and inter-countries differences. Minimum wage legislation: theory and empirical estimation of its effect on labor market. Minimum wage in case of monopoly. Active and passive labor market policies: methods and their evaluation. State employment offices and their role. Unemployment insurance system and unemployment benefits. National peculiarities of labor market policy.

(Вишневская Н. Реформа законодательства о защите занятости и рынок труда // Мировая экономика и международные отношения, 2006, № 10, с. 34–42)

Distribution of hours

#	Topic	Total hours	Contact hours		Self study
			Lectures	Seminars	
1.	Labor Market and Employment Structure of Population	12	2	2	8
2.	Labor Supply	14	4	2	8
3.	Labor Demand	14	4	2	8
4.	Labor Market Equilibrium	12	2	2	8
5.	Human Capital	12	4	2	6
6.	Wage Inequality: Compensating Wage Differentials	12	2	2	8
7.	Wage Inequality: Labor Market Discrimination	14	4	4	6
8.	Wage Inequality: Unions	16	4	4	8
9.	Labor Mobility	12	2	4	6
10.	Internal Labor Markets and Wage Policy of the Firm	14	2	4	8
11.	Unemployment and Job Search	16	4	4	8
12.	Labor Market Policy	14	2	4	8
Total:		162	36	36	90