

Contents

PREFACE TO THE STUDENT	xv
PREFACE TO THE INSTRUCTOR	xvii

PART ONE

1 Introduction to Labor Economics 1

1.1	Tipping Busboys	2
1.2	Labor Economics	5
	Key Principles	5
1.3	Economic Detection	7
	Arguments and Explanations	7
	Standards for Evaluating Hypotheses	7
	Scientific Method	8
1.4	Data	10
	Current Population Survey (CPS) and Census of Population	10
	Current Employment Survey (CES) and Other Data Sets	11
	Occupation Averages in the CPS	12
1.5	Empirical Methods	14
	Regression	14
	Causation and Instrumental Variables	16
	Before-and-After Comparison with and without a Control Group	17
	Confidence with Caution	19
1.6	For Your Toolbox	19
	Lines	19
	Slopes, Marginal Changes, and Elasticities	20
	Logarithms	21
	Random Variables and Distributions	22
	Adjusting for Inflation	23

2 Labor Markets 30

2.1	Competitive Labor Market	31
	Demand for Nurses	32
	Supply of Nurses	33
	Equilibrium in the Market for Nurses	35
	Shifting the Equilibrium	37
2.2	Minimum Wage	41
	Effect of a Minimum Wage on Employment	42
	Preliminary Evidence	44
	New Jersey Raises Its Minimum Wage	46
	Two Rounds of Federal Minimum Wage Hikes	48
2.3	Taxes, Subsidies, and Employer Mandates	51
	Employment Taxes	51
	Wage Subsidy	55
	Employer Mandate	57
2.4	Multiple Competitive Labor Markets	59
	Multi-Market Equilibrium and Migration	59
	Minimum Wage with Partial Coverage	61
2.5	Monopsony	63
	Monopsony Model	64
	Application: Baseball's Reserve System	67

3 Labor Supply 81

3.1	Motivating Evidence	82
	Participation and Employment Rates	82
	Weekly Hours of Work	84
3.2	Hours of Work	86
	Opportunities	87
	Preferences	90
	Consumption–Leisure Choice	94
	Changing Nonlabor Income	95
	Changing the Wage Rate	97
	Labor Supply Curve	99

3.3	Applications	101
	Taxing Labor Income	101
	Incredible Shrinking Workweek	103
	Retirement	104
3.4	Whether to Work	107
	Reservation Wage	107
	Application: Commuting and Other Costs of Work	108
	Application: Cash Grants and Income Guarantees	110
3.5	Family Labor Supply and Home Production	112
	Family Labor Supply	112
	Home Production	113
3.6	Market Labor Supply	115

4 Labor Demand 126

4.1	Short-Run Labor Demand	127
	Production Function and the Total-Product Curve	127
	Average and Marginal Products of Labor	128
	Profit	131
	Profit-Maximizing Choice of Employment	132
	Short-Run Labor Demand Curve	135
	Factors that Shift Labor Demand in the Short Run	136
	Payroll Tax and Short-Run Labor Demand	137
4.2	Long-Run Labor Demand	138
	Production Function and Isoquant Curves	138
	Cost Function and Isocost Lines	141
	Cost-Minimizing Mix of Labor and Capital	142
	Application: Cross-Country Differences in Capital Intensity	143
	Profit-Maximizing Choice of Labor and Capital	146
	Long-Run Labor Demand Curve	147
	Factors that Shift Labor Demand in the Long Run	149
	Application: Short-Run vs. Long-Run Effects of the Minimum Wage	150
4.3	Market Labor Demand	150
	Application: Demand for Palestinian Labor in Israel	151
	Equilibrium Price Effects and Marshall's Rules	152

PART TWO

5 Job Attributes 163

5.1	Market for Work on Dirty Jobs	164
	Supply of Labor to Dirty Jobs	165
	Demand for Labor on Dirty Jobs	166
	Equilibrium Wage Premium on Dirty Jobs	167
5.2	Model of Compensating Wage Differentials	169
	Wage–Dirt Curve	169
	Worker’s Job Choice	170
	Firm’s Job Choice	171
	Equilibrium Compensating Wage Differential	173
	Application: Occupational Safety Regulation	175
	Application: Value of Life	177
5.3	Workday and Job Choice	179
	Employer’s Interest in the Length of the Workday	180
	Compensating Wage Differentials for Long Workdays	182
5.4	Employee Benefits	184
	Composition of Pay	184
	Taxing Wages But Not Benefits	185
	But Cushy Jobs Pay More	186

6 Schooling 194

6.1	Schooling as an Investment in Human Capital	197
	Wage Profiles and the Wage–Schooling Curve	198
	Wealth and Iso-Wealth Curves	201
	Wealth-Maximizing Schooling Choice and the Demand for Schooling	202
	Equilibrium Wage–Schooling Curve	205
6.2	Estimating the Rate of Return to Schooling	207
	Rate of Return to Schooling Across Occupations	207
	Differences in the Interest Rate	208
	Tuition, Death, and Taxes	209
	Differences in Ability	211
	Avoiding Ability Bias	213

6.3	Schooling as a Signal of Ability	215
	Signaling Model of Schooling	216
	Signaling or Human Capital?	219
6.4	Application: Schooling and the Workweek	221

7 Training, Turnover, and Migration 232

7.1	General Training	234
	On-the-Job Training as an Investment	234
	Productivity and Wage Profiles	235
	Who Pays for General Training?	238
	Wages and Work Experience	239
	Labor Supply over the Life Cycle	241
7.2	Applications	244
	Military Training of Commercial Pilots	244
	MBAs	245
	Baseball's Reserve System	247
7.3	Specific Training	247
	Who Pays for Specific Training?	249
	Specific Training and Turnover	251
7.4	Matching Models of Turnover	252
	Searching on the Job	253
	Learning the Value of the Match	256
7.5	Migration	257
	Migration as an Investment in Human Capital	257
	Application: Indentured Servitude	259
	Selection on Skill	262
	Effects of Immigration in the Short Run and Long Run	264
	Application: Mariel Boatlift	265

8 Discrimination 275

8.1	Measuring Wage Gaps	276
	Wage Gaps by Sex, Race, and Ethnicity	276
	Standardized Comparison	279
	Accounting for Changes in Wage Gaps	286

Wage Gaps by Sex Across Countries	289
Wages and the Sex and Race Compositions of Occupations	290
8.2 Identifying the Effects of Discrimination	291
Omitted Skill Variables	291
Control Group of Nondiscriminators	292
Test Scores and the Long Shadow of Discrimination in Childhood	293
Discrimination in Hiring: Audit Studies and Blind Auditions	295
Career Wage Ratios and Family Demands	296
8.3 Modeling Discrimination	298
Employer Discrimination	298
Employee Discrimination	304
Customer Discrimination	305
Monopsony Discrimination	307
Statistical Discrimination	308
8.4 Can Discrimination Survive in the Long Run?	310
Paying a Price to Discriminate	310
Institutionalized Discrimination	312
8.5 U.S. Anti-Discrimination Policy	314

9 Unions 326

9.1 Historical Context	327
Union Membership	327
Union Wage Premium	333
9.2 Models of Unions	336
Union Bargaining with a Monopsony Employer	337
Monopoly Union	339
Efficient-Contracting Union	343
9.3 Applications	347
Comparing Union Models	347
Recipe for a Successful Monopoly Union	351
Effects of Unions on Nonunion Wages	356

10 Wage Inequality 366

10.1	Measuring Wage Inequality	367
	Dispersion	368
	Asymmetry	374
	Application: Wage Inequality Across Occupations	375
10.2	Economic Models of Wage Inequality	376
	Ability	377
	Schooling	378
	Job Assignment in Hierarchies	379
	Superstars	382
10.3	Application: Increasing Wage Inequality	384
	Increasing Return to Skills	385
	Skill-Biased Innovations and the Baby Boomers	387
	International Trade and Immigration	388
	Institutions	389
10.4	Technology and Jobs in the Long Run	390
	Skill-Biased Innovations in the Short Run and Long Run	391
	Encouraging Skill Formation	391
	Application: Automation and Job Loss	392

PART THREE

11 Compensation Strategies 402

11.1	Introduction to Compensation	403
	Production Environment	403
	Efficient Effort	404
	Self-Employment	405
	Profit Sharing and Shirking	405
11.2	Performance Pay	407
	Personal Performance	408
	Relative Performance	413
	Application: Self-Employment and Entrepreneurship	416
11.3	Efficiency Wage and the Threat of Dismissal	416
	Efficiency Wage	417
	Threat of Dismissal	421
	Application: Mandatory Retirement	424

11.4	Compensation of Chief Executive Officers	426
	Level of CEO Pay	427
	Sensitivity of CEO Pay to Firm Performance	431
	Application: Personal Use of the Corporate Jet	433

12 Unemployment 443

12.1	Disequilibrium Unemployment	446
	Minimum Wage and Efficiency Wage	446
12.2	Steady-State Unemployment	447
	Flows Between Labor-Market States	448
	Distribution of Lengths of Spells of Unemployment	451
12.3	Job Search	456
	Reservation Wage	456
	Career Jobs, Low Interest Rates, and Being Well-Connected	459
12.4	Applications	460
	Unemployment Insurance	461
	European Unemployment	465
12.5	Unemployment in the Macroeconomy	469
	Inflation and Unemployment	469
	Phillips Curves in a Model of Aggregate Fluctuations	470
	Job Vacancies and Unemployment	475
	ANSWERS TO THE PRACTICE QUESTIONS	487
	GLOSSARY	499
	INDEX	511