Economics 356

Economics of the Labor Market

Course Outline and Readings

This course is intended for undergraduates interested in the microeconomics of labor markets and labor market policy. It covers the basic theories of labor supply and demand and human capital investment. These theories are used to analyze a series of current policy topics including welfare programs, minimum wages, education and training, career choice, immigration, unions, discrimination, and economic disadvantage. Ec. 303 (or its equivalent) is recommended, but not required.

The textbook for the course is McConnell, Brue and Macpherson, Contemporary Labor Economics (9th Edition). Additional readings are available through the course’s Blackboard site.

The class meetings will be organized as lectures, but students are expected to be prepared to participate in class discussion. The course requirements include 3 quizzes, a mid-term, and a final examination. Quizzes will count for 20% of the final grade, the mid-term will count for 35%, and the final examination will count for 45%. Regularity and quality of participation in the class will be considered is situations where the final course grade is on a borderline. Missed quizzes and examinations can only be made-up for acceptable reasons (serious illness or family emergency). Requests for an excused absence from quizzes and exams must be submitted in writing in advance of the absence, and excuses must be documented. The University’s academic conduct regulations governing plagiarism and cheating on exams are strictly enforced in this course. (See http://www.bu.edu/academics/files/2011/08/AcademicConductCode.pdf)

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Office Hours

Doeringer: Monday, 4:30 – 6:00, Wednesday 4:00 - 5:30, or by appointment.

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Mid-term Examination: March 5, 2011 (no exceptions)

Final Exam: May 11, 2012, 9-11 (no exceptions)
I. Introduction to Labor Markets

McConnell and Brue Ch. 1

McConnell and Brue Ch. 18, pp. 537-545

McConnell and Brue Ch. 17, pp. 531-533


Handout: Counting the labor force

II. Labor Supply

1. The basic model of labor supply

   McConnell and Brue Ch. 2, pp. 14-31

2. Applications of the theory

   McConnell and Brue Ch. 2, pp. 31-45


   McConnell and Brue Ch.12, pp. 381-389 (income taxes)

3. Explaining long-term trends in labor supply

   McConnell and Brue Ch. 3


III. Labor Demand

1. The basic model of labor demand

   McConnell and Brue Ch. 5, pp. 128-145 (short-term labor demand); pp. 164-169 (long-term labor demand)

2. Demand elasticities and demand shifts

   McConnell and Brue Ch. 5, pp. 146-161
3. Policy application: minimum wages

McConnell and Brue Ch. 13, pp. 397-404

IV. Wage Determination, Wage Differentials, and the Allocation of Labor

1. Wages

McConnell and Brue Ch. 6, pp. 171-181

2. Wages and employment under monopoly and monopsony

McConnell and Brue Ch. 6, pp. 182-188, Ch. 12, pp. 373-376 (military draft)


3. Strategic fringe benefits

McConnell and Brue Ch. 7, pp. 198-208

4. Wage differentials

McConnell and Brue Ch. 8, pp. 231-247

5. Hedonic wages

McConnell and Brue Ch. 8, pp. 248-254

6. Applications of theory:

McConnell and Brue Ch. 13, pp. 405-414 (workplace health and safety)

7. Labor Market Imperfections and Adjustment

McConnell and Brue Ch. 8, pp. 254-259

V. Human Capital

1. The human capital investment model

McConnell and Brue Ch. 4, pp. 85-95

3. Example: Estimating the value of a BA in Economics

McConnell and Brue Ch. 4, pp. 95-104

McConnell and Brue Ch. 4, pp. 112-115 (through “general” on-the-job training)

4. The dynamics of career choice: college majors and beyond
McConnell and Brue Ch. 5, p. 158

McConnell and Brue Ch. 6, pp. 188-192

McConnell and Brue Ch. 8, pp. 256-257 (review lagged wage adjustment)


McConnell and Brue, Ch. 4, pp. 104-112

5. Policy Application: Economic rents in occupational labor markets

McConnell and Brue Ch. 13, pp. 414-418

6. Critique of human capital theory

McConnell and Brue Ch. 4, pp. 119-124

VI. Labor Mobility

1. Mobility, migration, and human Capital

McConnell and Brue Ch. 9, pp. 263-282; Ch. 15, pp.462-470


2. Policy application: Immigration

McConnell and Brue Ch. 9, pp. 284-290

VII. Institutional Labor Markets

1. Internal labor markets

McConnell and Brue Ch. 15, pp. 470-479

2. On-the-job training and specific human capital

McConnell and Brue Ch. 4, pp. 112-119 (includes review of general on-the-job training)


3. Principle-agent problems and efficiency wages

McConnell and Brue Ch. 7, pp. 208-227
4. Internal and external mobility


VIII. Unions

1. The structure of unions and the pattern of unionization

McConnell and Brue Ch. 10, pp 294-313

2. The economic impact of unions: theory and evidence

McConnell and Brue Ch. 10, pp. 313-329; Ch. 11

3. The public sector and unions

McConnell and Brue Ch. 12, pp. 366-372

IX. Discrimination

1. Race and gender in the labor market

McConnell and Brue Ch. 14, pp. 423-431


2. Economic theories of discrimination

McConnell and Brue Ch. 14, pp. 431-453

3. Policy application: Equal employment opportunity

McConnell and Brue Ch. 14, pp. 453-457

X. The Distribution of Earnings and the Structure of Labor markets

1. The distribution of earnings

McConnell and Brue Ch. 16

2. Unemployment and labor displacement

McConnell and Brue Ch. 18, pp. 548-560

3. The decline of career employment?

4. Dual Labor Markets: Efficiency Wages, Career Employment, and Unemployment


XI. The U.S. Labor Market and Public Policy

1. The performance of the American labor market

McConnell and Brue Ch. 18 pp. 548-560


2. Labor Market Policies

McConnell and Brue Ch. 18, pp. 560-561

3. Labor productivity and competitiveness

McConnell and Brue Ch. 17, pp. 509-515, 517-522, 525-533