Economics 552

Economic Organizations and Labor Markets

This course is intended for graduate students and well-qualified undergraduates interested in the economic institutions of labor markets. The emphasis in the course is on understanding how labor market institutions – workplace “personnel” practices, unions, internal labor markets, social and psychological workforce considerations, and public policy – affect competitive labor markets and how they can help to extend the standard microeconomics of labor markets. The course will begin with a review of supply, demand, and human capital theories of labor markets followed by an introduction to contemporary research on “workplace” economics and workplace efficiency incentives. The second part of the course examines the historical development of U.S. labor market institutions and compares U.S. institutions with those of other developed countries. The third part examines the social psychology of efficiency incentives -- fairness, “gifts”, and economic identity – and also the organizational factors that segment workplaces and labor markets. The concluding section examines how recent transformations in labor markets have affected market institutions and their implications for labor market policy. Qualitative and case study evidence, as well as quantitative data, will be used throughout the course to illustrate how markets and institutions interact to correct market failures, improve labor productivity, and shape the distribution of earnings.

The textbook for the course is George Borjas, Labor Economics (5th Edition). All supplemental readings and case study materials will be available on the Blackboard site for the course.

Course Requirements

The course will be organized as a seminar and students are expected to be prepared for class discussion. There will be mid-term and final examinations and a choice of written assignments. The written assignment can be fulfilled by (1) analyzing a union contract negotiation and a union “grievance” or (2) writing a research paper (15-20 pages) on a topic related to labor market institutions and organizations. The paper may be deal either with the United States or another country. Team research projects are acceptable with prior approval. The written assignment option counts for 25% of the course grade, the mid-term for 30%, and the final examination for 45%.

Missed quizzes and examinations can only be made-up for acceptable reasons (serious illness or family emergency). Requests for an excused absence from 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)
Office Hours

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

TA: Olesya Baker (obaker@bu.edu): Monday 11:00 – 12:00, Room B-18, 264 Bay State Rd., or by appointment

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

Final Exam: May 11, 2012, 9-11 (no exceptions)

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Course Outline and Readings

I. Introduction: Competing Views of Labor Markets

1. Competitive Labor Markets

   Borjas, Ch. 1, pp. 1-11


3. Unions, Market Power, and Efficiency

   Borjas, Ch. 11, pp. 418-423

II. Competitive Theories of Labor Supply, Labor Demand, and Wage Determination

1. The theory of labor supply and “opportunistic” utility maximization

   Borjas, Ch. 2, pp. 21-45, 50-56, pp. 60-71; Ch. 9, pp.406-412

2. The theory of labor demand and marginal productivity

   Borjas, Ch. 3, pp. 88-109, 124-128, 113-114

3. Equilibrium wages

   Borjas, Ch. 4, pp. 147-152; Ch. 5, pp. 159-166
4. Compensating wage differentials and hedonic wages  
   Borjas, Ch.5, pp. 205-216, 222-226

III. Human capital

1. Human capital investment and labor productivity
   Borjas, Ch.6, pp. 236-248

2. Education investment and ability
   Borjas, Ch. 6, pp. 248-250

3. Investment in on-the-job training
   Borjas, Ch. 6, pp. 268-277

4. Human capital “earnings functions”
   Borjas, Ch.6, pp. 250-251, 277-278; Ch. 4, pp. 188-190


5. Education as a Signal
   Borjas, Ch.6, pp. 262-267

IV. Introduction to Workplace Economics

1. Peer Group Labor Markets and Simple Hierarchies
   Oliver E. Williamson, Markets and Hierarchies, Ch. 3, pp. 41-55


2. The Economics of “Personnel” Management
3. Complex Hierarchies and Internal Labor Markets


Borjas, Ch. 8, pp. 349-358, Ch. 12, pp. 528-529


*Administrative Wages*: Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Ch. 4, pp.64-85

4. The principle-agent problem: Effort Incentives and efficiency wages

Borjas, Ch. 11, pp. 463-492


5. Power, authority, and control in internal labor markets

Sanford Jacoby, *Employing Bureaucracy*, Ch. 1, pp. 10-23, 26

6. Unions and collective bargaining

Borjas, Ch. 10, pp. 418-429, 443-449

Bruce E. Kaufman and Julie L. Hotchkiss, *The Economics of Labor Markets*, pp. 596-613

*Case Study-Wage Bargaining*: Hometown Firefighters Fact-finding Case (Handout)

V. Efficiency and Power in the Organizational Structure of the U.S. Labor Market

1. Flexible Labor Markets After the Industrial Revolution


2. Craft Labor Markets


3. The Development of Complex Hierarchies and Efficiency Wages

Sanford Jacoby, "The Development of Internal Labor Markets in American Manufacturing Firms", in Paul Osterman (Ed.), *Internal Labor Markets*, pp. 23-58


VI. International Comparisons of Labor Market Organization

1. Japan

Masahiko Aoki, "Toward and Economic Model of the Japanese Firm", *Journal of Economic Literature*, March 1990, pp. 7-14, 18-24


2. Western Europe

Marc Maurice, et al., "The Search for a Societal Effect in the Production of Company Hierarchy: A Comparison of France and Germany", in Paul Osterman (Ed.), *Internal Labor Markets*, pp. 231-258


VII. Organizational Alternatives to Internal Labor Markets and Efficiency Wages

1. Unions, Worker Voice, Fairness, and Efficiency

   Richard B. Freeman and Joel Rodgers, *What Workers Want*, Chapter 1, pp. 1-14
   Borjas, Ch. 10, pp. 451-454
   Richard Freeman and James Medoff, *What Do Unions Do?* Ch. 11

   *Case Study*: Fairness in Explicit Labor Contracts: Labor Arbitration Cases (Handout)

2. Job satisfaction, motivation, and reciprocity

   Ernst Fehr and Simon Gachter, “Fairness and Retaliation: The Economics of Reciprocity”, *Economic Perspectives*, Summer 2000, pp. 159-172


3. Using and Redefining Identity


VIII. Segmenting Forces in Labor Markets

1. Discrimination

   Borjas, Ch. 9, pp. 369-382, 385-390, 399-406, (review pp.406-412)
   Francine D., Blau and Lawrence M. Kahn, “Gender Differences in Pay”, *Journal of Economic Perspectives*, Vol. 14 no. 4 (Fall 2000), pp. 75-100 (Read quickly for trends in data)


Claudia Goldin, *Understanding the Gender Gap*, Ch. 6, pp. 159-177

*Case Study-Internal Market Segregation:* Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Ch. 7, pp. 137-147


2. Monopsony: Old and New

Borjas, Ch. 4, pp. 190-196


3. Dual Labor Markets and Unemployment

Borjas, Ch. 11, pp. 490-491

Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Ch. 8, pp. 163-171


**IX. Transformations in Labor Markets and Organizational Structures**

1. Causes and Consequences of Structural Change

Borjas, Ch. 7, pp. 293-305


2. Alternative Organizational Systems: The High Performance Workplace


3. Alternative Organizational Systems: Flexible Specialization

Michael J. Piore and Charles Sabel, *The Second Industrial Divide*, Ch. 10, pp. 258-265


X. Labor Market Institutions and Public Policy

1. Human Capital Policy

Borjas, Ch. 6, pp. 278-211


2. Anti-discrimination Policy

Borjas, Ch. 49, pp. 390-393, 406

3. Market Regulation and Industrial Policy?