

Econ306: Labour Markets & Wages (Fall 2010)

Course Outline, Readings and Topics Guides

(Tue/Thur 1:05-2:25, Burnside Room 1B36)

Professor: Paul Dickinson

paul.dickinson@mcgill.ca

Requirements

Econ 306 is designed to be taken as part of a Minor in Economics or a Major in Industrial Relations, for which it is a required course, and as an elective. While Econ306 is eligible for credit in the Economics Major programme, it is recommended that Economics Majors students take Econ 426 instead (with a prerequisite of Econ 230D). Econ 306 is **not** eligible for credit in the Honours Economics programme : do Econ 426 instead. Econ306 is not open to any student who has already taken Econ426. Finally, this course is not eligible for people who don't have the prerequisites of Econ208 & Econ 209, and also to people enrolled in the Centre for Continuing Education, the Faculty of Dentistry, the Faculty of Law, and the Faculty of Medicine. (See McGill Course Calendar for specifics)

Course Readings

The required text is *Labour Markets & Wages: Custom copy for McGill University*, created for this course by McGraw-Hill Ryerson and available at **Paragraphe** bookstore, 2220 McGill College Avenue. Other readings not from this text will be made available on the *myCourses* web site - a valuable tool which you should check frequently for information and readings (and asking questions of your fellow students in the class).

Course Perspective

You learned in Introductory Economics that wage rates, being the price of labour, are determined by the demand and supply of labour. Even where that is true - and it isn't true in all cases - the 'market for labour' is still very different than the market for a good like a bag of candy, or for a service like hairdressing, or for other intermediate goods like trucks or robotic arms. Unlike labour, these products can't think for themselves, can't act in accordance with objectives that may differ from those of the producer, are not subject to discrimination in ways that may help or hurt the discriminator, and can't combine with each other to 'bargain' with the producing firm. Labour can do all of these things and more. Also, the 'wage' (i.e. price) that the firm wishes to pay, and the form in which to pay it, can differ depending not only on the type of labour but also on whether the relevant time period for the firm is the hour, the week, the year, or many years. Institutions, practices and information within labour markets can change over time.

Consider some examples, all of which influence the wages received by the workers and the effective wage paid by the firm. First, fifty or sixty years ago it was often accepted as normal and even desirable to pay women less than men for doing the same job, or to refuse to hire workers because of personal characteristics (such as race or marital status). How much discrimination still exists? Why? Second, people 'invest' in themselves (by going to university, for example). To what extent is there a 'return' in higher wages and better job conditions, and will the wage gains change over time. Third, when firms

‘invest’ in their workers’ training, who pays and why? Fourth, different types of firms have different pay and benefit structures, some of which reward long-term attachment to the firm while others do not. Why is this? How can the firm get rid of older workers when compulsory retirement at (say) age 65 is illegal? Why should they want to? Fifth, why do workers in some types of job or firm want to unionize while others do not? What benefits do they get from unionization? (And so on...)

This course, therefore, looks at how labour markets and wages are influenced by aspects and institutions which extend the analysis beyond the simple neoclassical demand-and-supply model used in Introductory Economics.

Contacting Me

My phone number is (414) 398-4843, but it is best to contact me by email at paul.dickinson@mcgill.ca. (You get a faster response and it avoids the danger of indecipherable recordings on the ‘phone.) My office hours are preliminarily set for **Wednesdays, 1:00-3:00** (subject to change early in the semester as schedules are solidified). If you need to see me but can’t make regular office hours, email your request along with your schedule and we will try to find some mutually convenient time. If there is also a Teaching Assistant, the TA’s office hours will be set: *Make use of office hours whenever you are not sure you fully understand something!*

Examinations/Evaluation/Conduct

The midterm exam, worth 30% of the total grade, will be held in the last lecture period of the 7th week of semester (Wednesday October 20). The final, worth 70% of the total, is in the exam period after the end of semester and is scheduled by the Faculty of Arts. Any student missing the midterm receives a mark of zero unless (i) a valid medical note is presented or (ii) the instructor’s prior approval has been given. Conditions for approval are strict and entirely at the instructor’s discretion. Medical and other reasons for missing exams need written confirmation acceptable to the instructor. There will be no deferred midterm - if you miss it (with approval) the weighting on the Fall final is increased to 100%. All examinations are "closed book" - no texts, notes, cell ‘phones or electronic memory devices allowed. McGill University’s Charter of Students’ Rights specifies that students have the right to submit in English or in French any written work that is to be graded. Note too the following University regulations:

McGill University values academic integrity. Therefore all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see <http://www.mcgill.ca/integrity> for more information).....According to Senate regulations, instructors are not permitted to make special arrangements for final exams. Please consult the Calendar, section 4.7.2.1, General University Information and Regulations at www.mcgill.ca.

DETAILED TOPICS AND READINGS

The references should be read to complement and properly understand the lecture material. Some sections of the designated page references will be omitted as too difficult or not relevant to what we want to know, and you will be told which as we go along. *It is extremely important that you attend lectures - do not rely solely on the readings as presented below.* Articles and readings not in the Course Text will be made available on your **myCourses** web site for this course. Some topics and readings may be added/dropped depending on how fast/slow we move. The weeks noted are estimates only, and may change.

I: Polishing Some Basic Microeconomic Theory

Weeks 1 & 2

A: Labour marketsRagan & Lipsey (*RL*), “Microeconomics, 13th Canadian Edition, Chapter 13. (*myCourses*)**B: Individual Labour Supply (i.e., Do you want to work - and if so, how much?)**Course Text, Chap 2, pp. 69-76, pp.39-45,
Figure 2.8 (p.49), Figure 2.9 (p.50), Figure 2.10 (p.53), Table 2.2 (p.57)**II: Influences on Wage Determination & Relative Wages****A: Compensating Wage Differentials**

Weeks 2 & 3

- 1: Underlying Theory (Chap 8, pp.234-240)
- 2: *Application*: Compensating Differentials and Safety Regulations (Chap 8, pp.240-245)
- 3: Empirical Evidence & Policy Implications (Chap 8, pp.245-251)

B: Investment in Human Capital

Weeks 3 & 4

1. Net Present Value & returns to training/education (Chap 9, pp.255-265)
2. Education as a Filter/Signaling/Sorting device (Chap 9, pp.265 - 267)
3. Evidence on returns to education (Chap 9, pp.267-269, 272-274, 277-286)
4. General vs. Specific training: Who Pays? (Chap 9, pp.286-289)
5. Government Role and Program Evaluation (Chap 9, pp.289-291)
Lalonde, Robert J. *The Promise of Public Sector-Sponsored Training Programs*, Journal of Economic Perspectives, 1995 (*myCourses*)

C: Wage Structures Across Markets

Week 5

(Focus here is on differentials **not** attributable to education/training)

- 1: Persistence of differentials:
 - a. by occupation (Chap.10, pp.298-301, Table 10.1)
 - b. by region (Chap.10, pp.301-305, Table 10.1)
 - c. by industry (Chap.10, pp.306-311, Tables 10.1 & 10.2)

III: Discrimination and Male-Female Earnings Differentials

Weeks 6 & 8

A: Theories of Labour Market Discrimination (Chap.12, pp.356-364)**B:** Evidence on Earnings Differentials (Chap.12, pp.364-375. *Omit equations - alternative method in lectures*)
Wood, Robert G & Mary E. Corcoran & Paul N. Courant, A. *Pay Differences among the Highly Paid: The Male-Female Earnings Gap in Lawyers' Salaries*, Journal of Labor Economics, July 1993 (Wood et. al. on *myCourses*)**C:** Policies to Combat Discrimination, & Evidence of Effect (Chap.12, pp.380-394)**Week 7: Catch-Up and Mid-Term****IV: Institutional Arrangements and Influences**

Weeks 9 & 10

A: Free-market Wage Flexibility?Sundstrom, William A. *Was There a Golden Age of Flexible Wages? Evidence from Ohio Manufacturing, 1892-1910*", Journal of Economic History, June 1990 (*myCourses*)

B: Compensation Systems & Attributes

1. Agency Theory & Efficiency Wage Theory (Chap.13, pp.398-404)
2. Efficiency, Competition & Cooperation/Teamwork (Chap.13, pp.404-412)
3. Deferred Compensation (Chap.13, pp.412-418)

C: Application: Medical Compensation, Incentives & Quality of Care (myCourses)

- i. Krasnick, Allen et. al. *A Changing Remuneration Systems: Effects on Activity in General Practice*, British Medical Journal, June 1990
- ii. Hemenway, David et. al. *A Physicians' Responses to Financial Incentives*, The New England Journal of Medicine, April 1990

V: Unions and the Labour Market

Weeks 10 & 11

A: Perspective

Ragan & Lipsey (*RL*), "Microeconomics, 13th Canadian Edition, Chapter 14. (*myCourses*)

B: Theory of Union Behaviour & Collective Bargaining (Chap.15)

1. Union objectives & constraints (pp. 448-457)
2. Bargaining and Efficient Contracts (pp.457-461)
3. Evidence on union preferences (pp.462-464)
4. Bargaining power & restricting labour supply (pp.471-473 - omit Fig 15.9)

C: Impacts of Unions (Chap. 16)

Kuhn, Peter: *Unions and the Economy: What We Know; What We Should Know*, The Canadian Journal of Economics, November 1998 (*myCourses*)

VI: Selected Topics

Weeks 12 & 13

This section is like a well: some topics may be dropped down into it while others may be pulled up from it.

A: Earnings differentials for other groups. (Chap.12, pp.375-380)**B: Immigration, earnings & public policy**

1. What's going on in Canada (Chap 11, pp.325-333, *my Courses*)
2. What impact does it have? (Chap 11, pp.333-338)
3. How quickly do immigrants integrate/assimilate? (Chap 11, pp.338-347)
4. Canada's Brain Drain? (Chap 11, pp.348-352, *my Courses*)
5. The economics of illegal immigration in the US (*my Courses*)

C: Job Creation, Wage Subsidies & Job Training

Dickinson, Paul: *The Displacement Effect of Employment Enhancement Programs and Wage Subsidies*, Health & Welfare Canada, 1990. (Relevant abstracts on *myCourses*)

In the event of extraordinary circumstances beyond the University's control, the content and/or evaluation scheme in this course is subject to change.