

University of California, Davis
Department of Economics
Winter 2009

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EC151A
LABOR ECONOMICS

In this course, we will examine several important topics related to labor markets in the United States. The main theory covers the economics of labor supply and labor demand. We will also spend considerable time on policy applications such as welfare reform and minimum wage laws. Overall, the course is designed to cover important questions in labor economics, familiarize you with basic institutional background and statistics, and provide you with economic models important to the evaluation of the policy questions. With this in hand, you should be able to analyze, in an unbiased way, a wide array of important policy questions.

Class Meetings: Tuesdays and Thursdays, 12:10-1:30pm, SURGE 3

Office Hours: Tuesday 4-5pm, Thursday 9-10am and by appointment, 1152 SSH

Course Prerequisites: The essential pre-requisite for this course is Economics 100 (which in turn requires Mathematics 16A-B or 21A-B).

Section Place/Time: A01 T 0610-0700P SOCSCI 90 R. Gray
A02 T 0710-0800P SOCSCI 90 R. Gray
A03 R 0710-0800P STORER 1342 J. Pyun
A04 R 0610-0700P STORER 1342 J. Pyun

Teaching Assistants: Rowena Gray, 121 SSH, regray@ucdavis.edu
Office hours: Tuesday 5-6p, Thursday 3-4p

Ju-Hyun Pyun, 115 SSH, jpyun@ucdavis.edu
Office hours: Tuesday 4-5p, Friday 11-12

Course website: <http://smartsite.ucdavis.edu>

Required Textbook: George J. Borjas, Labor Economics, Fourth Edition (Irwin McGraw-Hill, 2008) [Earlier editions are also okay.]

An optional second reference that covers much of the same material is: Ehrenberg and Smith, Modern Labor Economics, (Addison Wesley).

Relationship to ECN151B: The department offers a two course sequence in Labor Economics: ECN151A and ECN151B. 151A provides the foundation of labor economics dealing with the theory of labor supply and labor demand. 151B consists of applications in labor economics. 151A is required to enroll in 151B.

Additional Required Readings:

In addition to the textbook, we will read a few journal articles in selected applied subject areas of the course. These will be made available.

Course Grading and Requirements:

Problem Sets (4-6)	Due dates as announced	15%
Midterm	Tuesday February 10	35%
Final Exam	Thursday, March 19 1:00-3:00p	50%

Course Web Site:

The course web page is available at <http://my.ucdavis.edu/>. You will be able to view and download the syllabus, class information, problem sets and solutions, exams and solutions, and limited lecture notes

Policies:

- All homework assignments are due and must be handed in during lecture. Earlier is okay too.
- Homework assignments will be distributed through the course web site (on my.ucdavis.edu) and are discussed in section.
- Homework is graded $\sqrt{+}$, $\sqrt{}$, and $\sqrt{-}$. When determining course grades, the homework is recorded as a 100% for a $\sqrt{+}$, a 85% for a $\sqrt{}$, 75% for a $\sqrt{-}$, and 0% if not handed in. There is a significant penalty for NOT handing in the homework.
- You are expected to do your own work on the homeworks.
- No make-up exams will be provided. Drop the course now if you have conflicts with the final exam time.
- Exams are closed book with a mixture of multiple choice, short answer, and multiple part analytical problems. The final is cumulative with a greater weight on material after midterm 2.

COURSE OVERVIEW:

1. Introduction and Overview (1 lecture)
2. Labor Supply I: The Decision to Work (2–3 lectures)
3. Application #1: Anti-Poverty Programs and Welfare Reform (1 lecture)
4. Labor Demand I (2 lectures)
5. Application #2: Effects of Minimum Wage Laws (2 lectures)
6. Labor Supply II: Household Production, the Family, and the Life Cycle (2 lectures)
7. Application #3: The relationship between economic development and female labor supply (1 lecture)
8. Labor Market Equilibrium (2 lectures)
9. Compensating Wage Differentials (2 lectures)
10. Unemployment [if time allows]

For more information on required readings and homeworks see Weekly Schedule on course website.

ECONOMICS 151A: LABOR ECONOMICS
PROFESSOR HILARY HOYNES, WINTER 2009

COURSE SCHEDULE, ASSIGNMENTS AND READINGS

Note: This is subject to change. Check schedule often.

Last Update February 23, 2009

<p>TUESDAY JANUARY 6</p>	<p>LECTURE #1 Introduction and Overview</p> <ul style="list-style-type: none"> ▶ Course mechanics ▶ Overview of labor economics ▶ Labor market definitions and facts ▶ Major trends in labor market outcomes <p>Borjas Ch 1</p>
<p>THURSDAY JANUARY 8</p>	<p>LECTURE #2 Labor Supply: Preferences, Budget Set, and Optimal Hours</p> <ul style="list-style-type: none"> • Income and substitution effects • Worker preferences (utility function and indifference curves) • Worker's budget constraint <p>Borjas, Ch 2 (2.1-2.5) HW #1 ASSIGNED TODAY</p>
<p>TUESDAY JANUARY 13</p>	<p>LECTURE #3 Labor Supply (cont)</p> <ul style="list-style-type: none"> ▶ Hours of work ▶ Reservation Wages & the decision to work <p>Borjas, Ch 2 (pp. 2.5-2.6, 2.9)</p>
<p>THURSDAY JANUARY 15</p>	<p>LECTURE #4 Labor supply curve</p> <ul style="list-style-type: none"> < Elasticities <p>Labor Supply: Anti-Poverty programs–Welfare and EITC</p> <ul style="list-style-type: none"> < Budget constraint under welfare < Effect of welfare on labor supply <p>Borjas, Ch 2 (pp. 2.7-2.8, 2.10-2.11) HW#1 DUE TODAY HW#2 ASSIGNED TODAY</p>

<p>TUESDAY JANUARY 20</p>	<p>LECTURE #5 Application: Policy Reform and Labor Supply During the 1990s</p> <ul style="list-style-type: none"> ▶ Budget constraint under EITC ▶ Effect of EITC on labor supply ▶ Analyzing effects of policy changes in welfare & EITC ▶ Difference in difference models <p>Lecture notes available for this class. REMEMBER TO DOWNLOAD BEFORE CLASS.</p> <p>Readings: Bruce D. Meyer and Dan T. Rosenbaum, "Making Single Mothers Work: Recent Tax and Welfare Policy and its Effects," <i>National Tax Journal</i> Vol. 53 no. 4 Part 2 (December 2000) pp. 1027-1062. http://ntj.tax.org/</p>
<p>THURSDAY JANUARY 22</p>	<p>LECTURE #6 Labor Demand in the Short Run</p> <ul style="list-style-type: none"> ▶ Production function, average and marginal product ▶ Profit maximization ▶ Demand for labor in the short run <p>Readings: Borjas, Ch 4 (4.1-4.2) HW#2 DUE TODAY</p>
<p>TUESDAY JANUARY 27</p>	<p>LECTURE #7 Labor Demand in the Long Run; Elasticities</p> <ul style="list-style-type: none"> < Isoquant curves and Isocost lines < Cost minimization < Demand for labor in the long run < Elasticities of labor demand <p>Readings: Borjas, Ch 4 (pp. 4.3-4.9) HOMEWORK #3 ASSIGNED TODAY</p>
<p>THURSDAY JANUARY 29</p>	<p>LECTURE #8 Elasticities of Labor Demand Labor Market Impacts of Minimum Wages Primer on Regression Analysis</p> <p>Readings: Borjas, Ch 4 (4.10), Statistical Testing of Labor Market Hypotheses, Borjas, Appendix to Ch. 1</p>

<p>TUESDAY FEBRUARY 3</p>	<p>LECTURE #9 Application: Minimum Wages <ul style="list-style-type: none"> < Background on minimum wages < Impact of minimum wages on employment < Empirical evidence on minimum wage (Card article) <p>Readings: David Card and Alan Krueger, Chapter 1 “Introduction and Overview,” in <i>Myth and Measurement: The New Economics of the Minimum Wage</i>, Princeton University Press, 1995, pp. 1-19. (on smartsite) David Card, “Do Minimum Wages Reduce Employment? A Case Study of California, 1987-1989,” <i>Industrial and Labor Relations Review</i>, Vol 46, No 1, October 1992, pp. 38-54. www.jstor.org</p> <p>HOMEWORK #3 DUE TODAY</p> </p>
<p>THURSDAY FEBRUARY 5</p>	<p>LECTURE #10 Noncompetitive markets and labor demand <ul style="list-style-type: none"> ▶ Monopolist ▶ Monopsonist ▶ Minimum wages and monopsony <p>Readings: Borjas, Ch 5 (5.8-5.9)</p> </p>
<p>TUESDAY FEBRUARY 10</p>	<p>LECTURE #11 MIDTERM Covers material through lecture 9.</p>
<p>THURSDAY FEBRUARY 12</p>	<p>LECTURE #12 Extensions to Labor Supply -- intemporal labor supply -- retirement <p>Readings: Borjas Ch 3 HOMEWORK #4 ASSIGNED TODAY</p> </p>
<p>TUESDAY FEBRUARY 17</p>	<p>LECTURE #13 Extensions to Labor Supply (cont) -- home production -- fertility -- Application: The relationship between economic development and female labor supply <p>Readings: Borjas Ch 3 Kristin Mammen and Christina Paxson, "Women's work and Economic Development," <i>The Journal of Economic Perspectives</i>, Vol 14, No. 4 (Autumn 2000). Focus on pp. 141-151. www.jstor.org</p> </p>

THURSDAY FEBRUARY 19	LECTURE #14 Labor Market Equilibrium -- Equilibrium in competitive markets -- Producer and consumer surplus; efficiency -- Immigration Readings: Borjas, Ch 4 (4.12), Ch 5 (Mariel Boatlift) HOMEWORK #4 DUE TODAY
TUESDAY FEBRUARY 24	LECTURE #15 Ch 5 Immigration (finish) Ch 6 Compensating Wage Differentials Readings: Borjas, Ch 6
THURSDAY FEBRUARY 26	LECTURE #16 Ch 6 Compensating Wage Differentials HOMEWORK #5 ASSIGNED TODAY
TUESDAY MARCH 3	LECTURE #17 NO LECTURE TODAY
THURSDAY MARCH 5	LECTURE #18 Ch 13 Unemployment Readings: Borjas, Ch 6 HOMEWORK #5 DUE TODAY
TUESDAY MARCH 10	LECTURE #19 Ch 13 Unemployment
THURSDAY MARCH 12	LECTURE #20 Review lecture
THURSDAY MARCH 19	FINAL EXAM 1-3 PM