

Prof. Bryan Caplan

bcaplan@gmu.edu

<http://www.gmu.edu/departments/economics/bcaplan>

Econ 321

Fall, 2000

Labor Economics Syllabus

Course Focus:

The course provides a survey of labor economics. It covers the basic theory of wage determination and human capital, along with numerous applied topics, from slavery and discrimination to safety regulation and crime.

Prerequisites:

I assume that you are familiar with basic microeconomics and algebra.

Texts:

Most of the course material will consist in detailed notes that will be handed out in class. There will also be required readings in each of the following:

Richard Posner, *Economic Analysis of Law*

Frederic Bastiat, *Economic Sophisms*

Paul Krugman, *The Accidental Theorist*

Steven Landsburg, *Fair Play*

Thomas Sowell, *Race and Culture*

Grading and Exams:

There will be one midterm and a final exam - essentially, an exam for each Part of the course. The midterm counts 30% each; the final exam is 45%; homework counts for the remaining 25%. These weights are fixed - improvement on later exams will not retroactively raise your grades on earlier exams.

There is no formal grade for participation, but if you are one of the students who (in my judgment) contributes most to the quality of class discussion you will be "bumped up" a fraction grade (e.g. B- to B).

Homework:

There will be approximately five homework assignments during the semester. Depending upon how good a job you do, your homework will receive a check-plus (4 points), a check (3 points), or a check-minus (2 points) if you turn it in; otherwise you receive 0 points. Late homework loses one point. *Late homework is no longer accepted after I pass out my suggested answers for a given assignment.*

Office Hours

The best way to contact me is by email at bcaplan@gmu.edu. Many questions and requests can be satisfied by going to my homepage at <http://www.gmu.edu/departments/economics/bcaplan>. My office is in 8 Carow Hall; my

office number is 3-2324. My official office hours are TT 3:00-4:30, but you can also schedule an appointment or just drop by and see if I'm available.

Tentative Schedule:

My proposed schedule for the semester follows. If it proves too ambitious, I will try to *simply say less about each topic* rather than cut the topics for the final weeks.

PART I: Marginal Productivity and Human Capital

Weeks 1-2: Labor Supply and Labor Demand

- Labor supply and the labor/leisure trade-off
- Labor demand and marginal productivity
- Labor markets in one occupation/industry
- Basic empirics of marginal productivity
- Compensating differentials
- Employers as middlemen, laborers, lenders, and insurers
- Aggregate labor markets
- Application: Multinational corporations and Third World labor
- The fundamental labor fallacies
- Time allocation, opportunity cost, and comparative advantage

Readings:

Bastiat, chapters 1-4, 7, 17

Krugman, pp.15-27, 80-86

Weeks 3-4: Labor Market Regulation and Labor Unions

- Unemployment as a labor surplus
- Wages and employment: the three possibilities
- Nominal wage rigidity and unemployment
- Minimum wage laws

- Real versus nominal minimum wages
- Safety and health regulations
- Regulation of hours
- Unemployment insurance
- Firing and layoff restrictions
- Unions as price-fixers
- Unionization on the free market
- Pro-union regulation
- Immigration restrictions and comparative advantage
- Why the standard history of labor is wrong
- Application: European unemployment

Readings:

Krugman, pp.34-38, 116-122

Posner 11.1-11.6

Landsburg, chapter 3

Week 5: Slavery

- The market for slaves
- The supply of slaves: capture versus natural increase
- The demand for slaves: marginal productivity minus subsistence
- Why slaves have a positive price
- Compensating differentials and slavery

- Incentives and altruism under slavery
- Regulation under slavery
- Slavery and "wage slavery" compared
- State slavery

Readings:

Sowell, chapter 7

Weeks 6-7: Human Capital

- Present discounted value (PDV)
- Rate of return on investment
- Slaves as investments
- You as an investment
- Application: the rate of return on education
- Rate of return on education: some evidence
- General versus firm-specific training
- Application: understanding the life cycle
- Accounting for compensating differentials
- Education subsidies: the failure of externality arguments
- Education subsidies and credit market imperfections
- Intelligence and human capital
- Personality and human capital
- Culture and human capital

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Readings:

possible handouts

MIDTERM #1

PART II: Advanced Topics

Weeks 8-9: Taxation and Redistribution

- Taxes and redistribution: the basic facts
- The leaky bucket: the deadweight costs of taxes and redistribution
- Labor taxation and marginal tax rates
- Leisure subsidies and marginal benefit reductions
- Policy and labor supply: income and substitution effects
- Policy and human capital acquisition
- Policy and compensating differentials
- Redistribution as return on investment
- Redistribution as insurance
- Egalitarian redistribution
- Some paradoxes of egalitarianism

- The big programs: redistribution to the elderly
- Demographics and redistribution
- The small programs: redistribution to the American poor
- Redistribution in reverse: immigration restrictions
- Why the standard view of the welfare state is wrong

Readings:

Posner, 16.1-16.5, 17.1-17.2

Landsburg, chapters 7-10

Krugman, pp.52-65

Weeks 10-11: Information Economics and Labor

- Probability
- Search theory and unemployment
- The natural rate of unemployment and its determinants
- Job security: insurance as a normal good
- Signaling
- Private versus social rates of return
- Signaling and education
- Signaling and subsidies for education

Readings:

possible handouts

Weeks 12-13: Discrimination

- *Wage differences*
- Empirical evidence on wage differences
- *Wage discrimination*
- Empirical evidence on wage differences controlling for observable characteristics
- Compensating differentials and apparent discrimination
- Discrimination as a preference
- Discrimination by employers, workers, and consumers
- Occupational discrimination and economies of scale
- Stereotypes and information economics
- Statistical discrimination
- The optimal response to statistical discrimination
- The effect of discrimination laws on taste discrimination
- The effect of discrimination laws on statistical discrimination
- Discrimination laws: price controls or quantity restrictions?
- Discrimination law in practice
- Why the standard history of discrimination is wrong

Readings:

Sowell, chapters 1 and 4

Posner, 11.7

Landsburg, chapter 16

Week 14: Economics of the Family

- The market for mates
- Assortative matching
- Household production
- Theory of household labor supply
- The economics of family size
- Family size, externalities, and bequests
- Divorce, out-of-wedlock births, and incentives
- Why the standard history of gender is wrong

Readings:

Posner, 5.1-5.5

Landsburg, chapter 13

Week 15: Crime, Lawsuits, and the Allocation of Talent

- The market for crime
- Deterrence: punishments as prices
- The supply of car thieves
- The demand for car thieves
- Wealth constraints and the case for fines
- The trade-off between costs of crime and costs of crime prevention

- The trade-off between the probability and the severity of punishment
- Lawsuits as private deterrence
- The market for lawyers
- Crime, law suits, and deadweight costs
- Implications for the allocation of talent

Readings:

Posner, 7.1-7.3, 21.5

FINAL EXAM