



Economics 300-01 (AFST 314-01):  
**LABOR MARKETS AND ENTREPRENEURSHIP**

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**Office hours: TTH 2:00-4:30 pm; and by appointment**

Spring 2017

MW: 2:00pm- 3:20 pm

Small Hall 235

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**Course Description**

The choice between entrepreneurship and wage-employment has important implications for individual welfare, economic growth and income distribution. This course addresses potential drivers of this critical occupational choice by looking at institutional and policy issues at the aggregate level, as well as household and personal characteristics at the micro level. We will also examine how these broad categories of factors may influence individuals' success once occupational choice has been made. Understanding the dynamics of employment choice is particularly relevant in this era of globalization where countries need to refine their business and labor market institutions and policies to remain internationally competitive.

Within a country, however, remarkable variation (inequality) may exist in terms of entrepreneurial success and labor market outcomes. For instance, despite the elimination of discriminatory labor and business laws around the world, minority owned businesses tend to perform poorly in some countries. This course provides students with theoretical and empirical approaches to examine across group variation in the propensity to become self-employed and the heterogeneity in entrepreneurial performance and labor market outcomes. Equally important is understanding the propagation of initial performance differences among different groups of society and how best to address them.

The first part of the course is on entrepreneurship and we begin with the role of institutions in explaining cross-country differences in entrepreneurship both from historical and contemporary perspectives. This will be followed by microeconomic determinants of who becomes an entrepreneur and which firm owners become more successful. Attention will also be given to heterogeneity in entrepreneurial success based on group identity – particularly gender and race. Theoretical discussions on sources of heterogeneity will be followed by empirical evidence from three multiracial societies: Brazil, South Africa and the United States. The choice of country cases is not random. Brazil and South Africa are the largest and most advanced economies, respectively, in Latin America and Sub-Saharan Africa (while they are both members of the BRICS group). The US is the largest economy in the world and the most liberal economy within the developed world. The lessons to be learned from these countries will have broader implications.

The second part of the course is on labor markets addressing access to employment and returns to employment. It starts by assessing the unemployment problem in US during and after the Great Recession. This will be followed by a discussion on the role of human capital on labor market earnings. Most empirical studies show that wage differences among workers cannot be fully explained by differences in human capital. Employers may thus reward comparable levels of human capital differently. To address this we will examine the concepts of racial segregation, discrimination and disadvantages from theoretical and empirical perspectives. This would allow students to distinguish those factors that affect the opportunity to build productivity enhancing attributes from the effects of employer prejudice and discrimination in rewarding such attributes. Like in the case of entrepreneurship, the empirical analysis will lean on examples from the US, South African and Brazilian labor markets.

## Requirements and Grading:

Intermediate microeconomics is required to enroll in this course. Students who have taken only principles of microeconomics may also register in this course with the prior approval of the instructor if they can prove enrollment in closely related courses. Some of the reading materials involve findings from regression analyses and students will be provided with basic technical skills on how to interpret such results. A course in econometrics is not required.

Your final grade for this course will be determined as follows:

Assessment Type	Grade	Due Date
Midterm Exam I	20%	Mar 01
Midterm Exam II	20%	Apr 12
Problems Set	8%	tba
Group Presentation	20%	Apr 17 and 19
Class Participation	7%	
Final Exam	25%	tba

As indicated in the table above, there will be two midterm exams each with a 20% weight in your final grade, and a non-comprehensive final exam of 25% weight. All exams are supposed to be taken on the specified data. Students are encouraged to work together on problem sets but each student has to submit the assignment in his/her own words. Topics for the group presentation assignment as well as detailed instructions will be provided in due course. Effective class participation requires reading the assigned papers before class, and engage in classroom discussion, raising and answering questions. Students will also be asked randomly to be discussants for assigned reading material.

## Readings:

Most of the readings for this course are articles which will be uploaded on the course Blackboard. We will also use a few chapters from the following two books:

Fairlie, R.W. and A.M. Robb. 2008. *'Race and Entrepreneurial Success: Black-, Asian-, and White-owned Businesses in the United States.'* MIT Press, Cambridge, MA.

Lang, K. 2007. *'Poverty and Discrimination.'* Princeton University Press, Princeton, NJ.

Double asterisks indicate supplementary readings; the rest are all required readings.

## Course Outline

### Part I. Entrepreneurship

#### 1/18: Introduction

#### Week of 1/23: Entrepreneurship Across Countries: The Role of Institutions

Baumol, W.J. 1990. "Entrepreneurship: Productive, Unproductive, and Destructive," *Journal of Political Economy*, 98, 893--921.

Djankov, S., R. La Porta, F. Lopez-de-Silanes and A. Shleifer. 2002. "The Regulation of Entry," *Quarterly Journal of Economics* CXVII, 1, 1-37.

\*\*Geroski, B.A. 1995. "What Do we Know About Entry?" *International Journal of Industrial Organization* 13, 421-440.

#### Week of 1/30: Characterizing US Entrepreneurs

Hamilton, H.B. 2000. "Does Entrepreneurship Pay? An Empirical Analysis of the Returns of Self-Employment," *Journal of Political Economy* 108, 3, 604-631.

Evans, S. D. and L.S. Leighton. 1989. "Some Empirical Aspects of Entrepreneurship," *American Economic Review*, 79, 3, 519-535

#### Week of 2/06: Determinants of Entrepreneurship (Self-Employment):

Blanchflower, D.G. and A.J. Oswald. 1998 "What Makes an Entrepreneur?" *Journal of Labor Economics* 16, 26-60.

Dunn, T. and D. Holtz-Eakin. 2000. "Financial Capital, Human Capital, and the Transition to Self-Employment: Evidence from Intergenerational Links," *Journal of Labor Economics* 18, 2, 282-305.

#### Week of 2/13: Race and Entrepreneurship

Blanchflower, D. G., P. B. Levine and D. J. Zimmerman. 2003. "Discrimination in the Small Business Credit Market," *Review of Economics and Statistics* 85, 4, 930-943.

Chatterji, A., and R. Seamans. 2012. "Entrepreneurial Finance, Credit Cards and Race," *Journal of Financial Economics* 106,1,182-195.

Fairlie, R.W. and A.M. Robb. 2008. 'Race and Entrepreneurial Success: Black-, Asian-, and White-owned Businesses in the United States.' MIT Press, Cambridge, MA.

Chapter 1: Introduction.

Chapter 4: Why are African American-Owned Businesses Less Successful?

## **Week of 2/20: Continued Discussion on Race and Entrepreneurship**

### **First Midterm Exam: Wednesday March 01**

### **Spring Break: March 04-12**

## **Week of 03/13: Entrepreneurship in South Africa and Brazil**

Okechukwu C. Iheduru. 2004. "Black Economic Power and Nation-building in Post-apartheid South Africa," *Journal of Modern African Studies*, 42, 1,1-30.

Lichand, Guilherme. 2010. "Decomposing the Effects of CCTs on Entrepreneurship," World Bank, Economic Perspectives No. 4

## **Part II. Labor Markets**

### **Week of 3/20: (Un)employment and Returns to Human Capital**

Estevao, M., and E. Tsounta. 2011. "Has the Great Recession Raised US Structural Unemployment?" IMF Working Paper No. 11/105.

Autor, D., L. Katz, and M. Kearny. 2008. "Trends in U.S. Wage Inequality: Revising the Revisionists," *Review of Economics and Statistics* 90,2, 300-323.

Weiss, A. 1995. "Human Capital Vs. Signaling Explanation of Wages," *Journal of Economic Perspectives* 9, 4, 133-154.

### **Week of 3/27: Discrimination in the US Labor Market**

Lang, K. 2007. *'Poverty and Discrimination,'* Princeton University Press, Princeton, NJ. Chapter 10, Discrimination: Theory, pp. 265-282

Bertrand, M. and S. Mullainathan. 2004. "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination." *American Economic Review* 94, 4, 991-1013

Lang, K. 2007. *'Poverty and Discrimination,'* Chapter 11: Race Discrimination in the (US) Labor Market, pp. 283-316.

### **Week of 3/27: Racial Wage Inequality and Affirmative Action in the U.S.**

Huffman, M. and P. Cohen. 2004. "Racial Wage Inequality: Job Segregation and Devaluation across U.S. Labor Markets," *American Journal of Sociology* 109,4, 902-936.

O'Neill, J. 1990. "The Role of Human Capital in Earnings Differences Between Black and White Men," *Journal of Economic Perspectives* 4,4, 25-45.

Coate, S. and G. Loury. 1993. "Will Affirmative Action Policies Remove Negative Stereotypes?" *American Economic Review* 83, 5, 1220-1240.

### **Week of 4/03: The South African Labor Market**

Mwabu, G. and P. Schulz. 2000. "Wage Premium for Education and Location of South African Workers by Gender and Race," *Economic Development and Cultural Change* 48, 2, 307-334

Banerjee, A., S. Galiani, J. Levinson, Z. McLaren and I. Woolard. 2008. "Why has unemployment risen in the New South Africa?" *Economics of Transition* 16, 4, 715-740.

\*\*Kingdom, G. and J. Knight. 2007. "Unemployment in South Africa, 1995–2003: Causes, Problems and Policies," *Journal of African Economies* 16, 5, 813–848.

### **Second Midterm Exam: Wednesday April 12**

## **Week of 4/17: Student Group Presentations**

## **Week of 4/24: The Brazilian Labor Market**

Lovell, P.A. 1994. "Race, gender and development in Brazil", *Latin American Research Review*, 29, 3.

Arias, O., G. Yamada, and L. Tejerina. 2004. "Education, family background and racial earnings inequality in Brazil," *International Journal of Manpower* 25, 3/4,355-374

Arcand, J. and B. D'Hombres. 2004. "Racial Discrimination in The Brazilian Labor Market: Wage, Employment and Segregation Effects," *Journal of International Development* 16, 1053-1066.

Lam, D. 1999. "Generating Extreme Inequality: Schooling, Earnings, and Intergenerational Transmission of Human Capital in South Africa and Brazil," University of Michigan, Population Studies Center, Research Report No. 99-439.

## **Some useful links:**

United States Association for Small Business and Entrepreneurship (USASBE)

<http://usasbe.org/>

The International Council of Small Business (ICSB)

<http://www.icsb.org/>

The Babson-Kaufman Entrepreneurship Conference

<http://www.babson.edu/Academics/centers/blank-center/bcerc/Pages/home.aspx>

The International Labor Organization (ILO)

<http://www.ilo.org>