

The College of William and Mary  
Labor Market Analysis  
Syllabus

ECON 451  
Spring 2017  
Tues., Thurs.  
9:30 am - 10:50 am in Blow Hall 332

Peter McHenry  
256 Tyler Hall  
(757) 221-1796  
pmchenry@wm.edu  
<http://wmpeople.wm.edu/pmchenry>

### Course description and objectives

Is expanding unemployment insurance eligibility a good idea? Why are CEOs in the finance industry (still) paid so much? Could lower income tax rates really increase government revenue? This course uses theory and evidence from economics to answer such questions. It seeks to enhance students' understanding of the various interactions between firms and workers. Students will learn to apply microeconomic principles to topics such as labor force participation, unemployment, immigration, determinants of earnings, education, labor unions, and labor policies such as minimum wages. Students will investigate these topics by evaluating recent economic research findings and analyzing labor market data.

This course is for any student who has completed Intermediate Microeconomic Theory (ECON 303) in a satisfactory manner. It fulfills the Economics major writing requirement.

### Course Materials

Textbook: *Labor Economics* by George Borjas (3<sup>rd</sup> or later edition)  
Selected readings posted at the course Blackboard site

### Determinants of the Final Grade

|                                     |            |
|-------------------------------------|------------|
| Applications of Economic Principles | 10%        |
| Writing Assignments                 | 40%        |
| Midterm Exam                        | 20%        |
| Final Exam                          | <u>30%</u> |
|                                     | 100%       |

### Applications of Economic Principles

Students will write three very brief (one or two paragraphs) essays that apply general economic principles in labor economics contexts. See the separate document called "Guide for Applications of Principles" for details. Applications are due February 2, February 16, and February 23. This assignment is worth 10% of the final grade.

### Writing Assignments

Students will complete two writing assignments. See the separate document called "Guide for Writing Assignments" for details. Papers will be evaluated for economic content and writing style. Late submission earns a reduced grade.

1) *Description and analysis of a labor market.* (20% of final grade. Due March 28.)  
Students will use economic concepts and contemporary data to describe and analyze a specific labor market of their choice.

2) *Brief policy paper*. (20% of final grade. Due April 27.) Students will choose a specific labor market policy of current interest, describe it briefly, and analyze it using economics. The analysis will include the presentation and interpretation of relevant data.

### **Examinations**

The course includes one midterm examination (on March 16) and one final examination (on May 8). An unexcused absence from an exam results in a score of zero for that exam. Make-up exams are available for students with excused absences, which require a letter of excuse from the Dean's office.

Exams will cover material from class sessions, the textbook, and required (\*) outside readings. I encourage you to complete assigned readings before each class meeting. Doing so will improve the class environment for everyone by promoting productive questions and discussion. If it is clear that many students are not keeping up with reading assignments, I will increase the amount of exam questioning about the readings. The final exam will cover topics from the whole course.

If you have a disability that makes you eligible for accommodations on examinations, please contact the Office of Student Accessibility Services as soon as possible. They will help develop and implement a plan for examinations. If this applies to you, please begin the process well (i.e., weeks) before the midterm exam.

### **Grading Standards**

Letter grades for the course will be based on a standard 100-point scale where 93-100 implies an A, 90-92 implies an A-, 88-89 implies a B+, 83-87 implies a B, and so on. I will adjust exam grades up if the class median is low. In particular, I will increase all scores uniformly until the median is at least 83 (a B), except that the maximum score increase is 10 points. I will not adjust scores downward if the median is high.

### **Poll Everywhere and Extra Credit**

We will use a student response system called Poll Everywhere in class to facilitate discussion and quizzes. Please bring a smart phone, tablet, laptop, or other web-capable device to every class. If you use an Apple or Android device, please download the free Poll Everywhere app (not required, but it'll be convenient). You can participate without a web-capable device by sending text messages from a registered phone.

William & Mary's Poll Everywhere agreement requires students to pay \$14 per year to use the service. If you already have an active account, your marginal cost is zero. Please use the URL below for information about registering for an account and associating your account with my class.

<http://www.wm.edu/offices/it/services/academicsupport/studentresponsesystem/index.php>

Remember to use your W&M e-mail address to register.

If you need assistance setting up your device to work on the William & Mary network, please navigate to the IT help page at <http://www.wm.edu/offices/it/gethelp/index.php>.

Though we may use this system informally at our first class, I plan to have formal assessments on Poll Everywhere beginning on January 31. Some class meetings will begin with a pop quiz using Poll Everywhere. Pop quizzes overall can increase your final grade by at most 2 points (on a 100-point scale). Extra credit points are calculated as:

$$2 * (\text{pop quiz points earned}) / (\text{total possible pop quiz points}).$$

You must register for Poll Everywhere in order to get this extra credit.

### **Office Hours and Other Access to the Instructor**

I will be available in my office (Tyler 256) from 2 to 3 pm each Monday and Wednesday during the semester. Please let me know if you would like to schedule a meeting outside those times. E-mail is an excellent way to contact me (pmchenry@wm.edu).

### **Honor Code**

I encourage you to collaborate in your studies and discussion of economics this semester. However, graded writing assignments and all exam work should be completed without the aid of other students. Furthermore, students will not be allowed to refer to outside sources during exams. I consider the use of unauthorized aid on graded assignments to be a violation of the Honor Code.

More specifically, plagiarism on a writing assignment is a violation of the Honor Code. Plagiarism is presenting someone else's words or ideas as your own. When you write a document and distribute it, you imply that its words and ideas are your own, except where explicitly noted in the text (as with citations to others' work). Please do not plagiarize. If you have questions about plagiarism, please ask me.

A common impetus for plagiarism is desperation. When a student waits until the night before a due date to begin work on an assignment, and his computer crashes at 3 am leaving no back-up file, he is often tempted to find someone else's work and submit it as his own. Please avoid such temptation by spreading your writing process over several days (or weeks).

More resources about plagiarism (and writing in general) are available through the Writing Resources Center (<http://www.wm.edu/as/wrc/index.php>).

### **Schedule with Assignments and Readings**

Readings other than Borjas textbook chapters are posted at Blackboard. Borjas chapter numbers refer to the 5<sup>th</sup> edition. All readings are valuable, and ideas from them that I also present in class will appear on exams. Readings marked with an asterisk (\*) are considered "required" in the sense that I expect students to be able to discuss them in class, and I will focus more on them in exams.

#### I. Introduction to Labor Economics Topics and This Course

1/19 Borjas Chapter 1 "Introduction to Labor Economics"

1/24 Borjas Chapter 1 Appendix "An Introduction to Regression Analysis"

Carpenter "A Brief Exposure to Econometrics"

#### II. Labor Supply Decisions and Policies

1/26 Borjas Chapter 2 "Labor Supply"

1/31 (\*) Farber (2014) "Why You Can't Find a Taxi in the Rain and Other Labor Supply Lessons from Cab Drivers" NBER Working Paper 20604.

Angrist and Evans (1998) "Children and Their Parents' Labor Supply: Evidence from Exogenous Variation in Family Size" *American Economic Review* 88(3) June: 450-477.

2/2 ECONOMIC PRINCIPLE APPLICATION 1 DUE (BY 11:59 PM)

(\*) Eissa and Liebman (1996) "Labor Supply Response to the Earned Income Tax Credit" *Quarterly Journal of Economics* 111(2) May: 605-637.

2/7 Liebman and Saez (2006) "Earnings Responses to Increases in Payroll Taxes" working paper, September.

Mankiw, Weinzierl, and Yagan (2009) "Optimal Taxation in Theory and Practice" *Journal of Economic Perspectives* 23(4), Fall, 147-174.

Diamond and Saez (2011) "The Case for a Progressive Tax: From Basic Research to Policy Recommendations" *Journal of Economic Perspectives* 25(4), Fall, 165-190.

### III. Labor Demand Theory and Policies

2/9 Borjas Chapter 3 "Labor Demand"

(\*) McAuliffe (2013) "Keeping Virginia Competitive in a Global Economy" Accessed at <http://terrymcauliffe.com>

2/14 (\*) Sabia, Burkhauser, and Hansen (2012) "Are the Effects of Minimum Wage Increases Always Small? New Evidence from a Case Study of New York State" *Industrial and Labor Relations Review* 65(2): 350-376.

Neumark (2014) "Employment Effects of Minimum Wages" IZA World of Labor 2014: 6.

Bartik (2002) "Thinking about Local Living Wage Requirements" Upjohn Institute Working Paper No. 02-76.

### IV. Labor Market Equilibrium

2/16 ECONOMIC PRINCIPLE APPLICATION 2 DUE (BY 11:59 PM)

Borjas Chapter 4 "Labor Market Equilibrium"

2/21 Gruber (1994) "The Incidence of Mandated Maternity Benefits" *The American Economic Review* 84(3) June: 622-641.

Prada, Rucci, and Urzua (2015) "The Effect of Mandated Child Care on Female Wages in Chile" NBER working paper 21080.

Ashenfelter, Farber, and Ransom (2010) “Modern Models of Monopsony in Labor Markets: A Brief Survey” IZA Discussion Paper No. 4915.

## V. Unemployment

2/23 ECONOMIC PRINCIPLE APPLICATION 3 DUE (BY 11:59 PM)

Borjas Chapter 12 “Unemployment”

(\*) Akerlof and Shiller (2009) “Why Are There People Who Cannot Find a Job?” Chapter 8 in *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism* (Princeton UP).

2/28 (\*) Card, Chetty, and Weber (2007) “The Spike at Benefit Exhaustion: Leaving the Unemployment System or Starting a New Job?” *American Economic Review* 97 May: 113-118.

Feldstein (2005) “Rethinking Social Insurance” *American Economic Review* 95 March: 1-24. Introduction and Sections I, II, III, IV, and VII (may skip sections on Social Security and Medicare).

## VI. Compensating Wage Differentials

3/2 Borjas Chapter 5 “Compensating Wage Differentials”

Ashenfelter and Greenstone (2004) “Using Mandated Speed Limits to Measure the Value of a Statistical Life” *Journal of Political Economy* 112 February: S226-67.

SPRING BREAK

## VII. Human Capital

3/14 Borjas Chapter 6 “Human Capital”

3/16 MIDTERM EXAM

3/21 TOPIC FOR WRITING ASSIGNMENT 1 SENT TO PMCHENRY@WM.EDU

(\*) Couch (1992) "New Evidence on the Long-Term Effects of Employment Training Programs" *Journal of Labor Economics* 10(4) October: 380-388.

Card, Ibarrran, Regalia, Rosas-Shady, and Soares (2011) “The Labor Market Impacts of Youth Training in the Dominican Republic” *Journal of Labor Economics* 29(2) 267-300.

## VIII. The Wage Structure

3/23 Borjas Chapter 7 “The Wage Structure”

(\*) Autor (2010) “The Polarization of Job Opportunities in the U.S. Labor Market: Implications for Employment and Earnings” Center for American Progress and The Hamilton Project.

Autor Ted Talk: “Why Are There Still So Many Jobs?”

<https://www.youtube.com/watch?v=LCxcnUrokJo&list=PLsRNoUx8w3rOyHeLmdk384sDpCq2GHwDw&index=3>

*The Economist* (2014) “The Onrushing Wave,” January 18.

3/28 WRITING ASSIGNMENT 1 DUE (BY 11:59 PM): MARKET DESCRIPTION AND ANALYSIS

Chetty, Hendren, Kline, Saez, and Turner (2014) “Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility” NBER Working Paper 19844.

#### IX. Labor Mobility

3/30 Borjas Chapter 8 “Labor Mobility”

(\*) Card (2005) “Is the New Immigration Really So Bad?” *The Economic Journal* 115 November: F300–F323.

4/4 (\*) Lazear and Spletzer (2012) “Hiring, Churn, and the Business Cycle” NBER working paper 17910.

Light (2005) “Job Mobility and Wage Growth: Evidence from the NLSY79” *Monthly Labor Review* 128 February: 33-39.

#### X. Discrimination

4/6 Borjas Chapter 9 “Labor Market Discrimination”

4/11 (\*) Bertrand and Mullainathan (2004) “Are Emily and Greg More Employable Than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination” *American Economic Review* 94 September: 991-1013.

4/13 [Regular class meeting, no preparatory reading.]

#### XI. Unions

4/18 Borjas Chapter 10 “Labor Unions”

Blanchflower and Bryson (2004) “What Effect Do Unions Have on Wages Now and Would Freeman and Medoff Be Surprised?” *Journal of Labor Research* 25(3) Summer: 383-414.

Hirsch (2004) “What Do Unions Do for Economic Performance?” *Journal of Labor Research* 25(3) Summer: 415-455.

4/20 TOPIC FOR WRITING ASSIGNMENT 2 SENT TO PMCHENRY@WM.EDU

Holmes (1998) “The Effect of State Policies on the Location of Manufacturing: Evidence from State Borders” *Journal of Political Economy* 106 August: 667-705.

## XII. Incentive Pay

4/25 Borjas Chapter 11 “Incentive Pay”

(\*) Lazear (2000) “Performance Pay and Productivity” *American Economic Review* 90 December: 1346-1361.

4/27 WRITING ASSIGNMENT 2 DUE (BY 11:59 PM): POLICY PAPER

5/8 FINAL EXAM (Monday 9 am - noon where the class regularly meets)

### **Instructor: Peter McHenry**

I was born 50 miles away into a Navy family in Portsmouth, VA. I earned my BS from Vanderbilt and my PhD in economics from Yale. My research is in labor and urban economics. I have mostly studied migration behavior (of people, not birds). My research also tries to understand why different groups of people earn different wages, for example across races and locations. I have a particular interest in education policy. I have criticized how colleges tout their local economic impacts and studied how students sort into colleges.

I want you to learn a lot of economics this semester. Toward that end, I welcome your questions and comments. My contact information is on the first page.