



Economics AFST 314-01 (ECON384-01):  
**LABOR MARKETS AND ENTREPRENEURSHIP**

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**Office hours: MW 2:15-4:45 pm; and by appointment**

Spring 2019

TTR: 11:00am- 12:20 pm

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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 the implications of these factors for success in entrepreneurship and wage employment. Understanding the dynamics of employment choices is particularly relevant in this era of globalization where countries need to refine their business and labor market institutions and policies to remain competitive.

Within a country, however, remarkable variation (inequality) exists 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 multiracial countries. This course provides students with theoretical and empirical approaches to examine between-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 historically and in modern times. This will be followed by microeconomic determinants of becoming an entrepreneur and which small firm become more successful. Attention will also be give 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. They are both members of the BRICS. The US is the largest economy in the world and the most liberal economy within the developed world. The lessons learned from these countries are thus believed to have broader relevance.

The second part of the course is on labor markets addressing access to employment and returns to employment as key variables of interest. It starts by assessing the 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 depending on an employee's group identity. To address this, we will examine the concepts of racial segregation, discrimination and other disadvantages from a 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:

<b>Assessment Type</b>	<b>Grade</b>	<b>Due Date</b>
Midterm Exam I	20%	Feb 28
Midterm Exam II	20%	Apr 11
Group Presentation	20%	Apr 16 and 18
Class Participation	10%	
Final Exam	30%	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 30% 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.

I expect active participation of students in this international and policy-oriented course. Class participation accounts for 10% your final grade. I will ask students to be discussants for a particular reading material. As a discussant you will be expected to highlight the main question the paper aims to answer, the approach/methods the authors used to answer the question, the main findings, etc. You are also expected to raise discussion questions based on the assigned reading. Participation also means asking and answering questions, providing comments, and sharing any related experiences. While the discussant will lead the discussion all students are required to read the course materials before each session.

I allow three days of absences from class without a need for producing an official document explaining your absence. However you are not allowed to miss more than two consecutive lecture sessions. I also do not reschedule designated exam dates. If you miss a midterm exam, its weight will be reassigned to your other exams provided that you produce a written excuse from the relevant College office. Absence beyond three days needs written excuse from the relevant College authority and should be presented to me in advance except in case of emergencies.

## Readings:

Most of the readings for this course are journal articles which are 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

#### 1/17: Introduction

#### Week of 1/21: 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.

#### Week of 1/28: 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 2/04: 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 2/11: Race and Discrimination in Small Business Credit**

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.

### **Week of 2/18: Race and Entrepreneurial Performance**

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 2/25: 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

### **First Midterm Exam: Thursday Feb. 28**

**Spring Break: 03/02 – 03/10**

### **Week of 03/11: Summarizing Entrepreneurship**

## **Part II. Labor Markets**

### **Week of 3/18: (Un)employment and Returns to Human Capital**

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

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.

### **Week of 3/25: 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 04/01: 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 04/08: 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: Thursday April 11**

### **Week of 4/15: Student Group Presentations**

### **Week of 4/22: 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>