



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

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Morton 102

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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 further examine the implications of such 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 adjust their business and labor market institutions and policies to remain competitive.

Within a country, however, remarkable variation (inequality and even inequity) exists in terms of entrepreneurial success and labor market outcomes. For instance, despite the elimination of discriminatory labor and business laws, minority-owned businesses tend to perform poorly in the US and other multiracial countries. This course provides students with theoretical and empirical approaches to examining between-group differences in the propensity to become self-employed, in post-entry entrepreneurial performance as well as labor market outcomes. Equally important is understanding the propagation over time of initial performance gaps across 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 historically and in modern times. This will be followed by a discussion on microeconomic determinants of who becomes self-employed, and which small firms are likely to succeed. Attention will also be given to heterogeneity in entrepreneurial success based on group identity – particularly gender and race. Theoretical discussions on sources of inequality will be compared with empirical evidence from three multiracial countries: 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 where we address determinants of access to jobs and labor market earnings. It starts by examining the role of human capital in wage determination and the evolution of wage inequality. Labor economists have shown that wage differences among workers cannot be fully explained by differences in human capital. The extent to which employers reward comparable attainments of human capital differently based on the group identity of employees is thus critical to inequality and social justice. To address this, we will examine the concepts of racial prejudice, segregation, discrimination and other disadvantages using theoretical and empirical approaches. 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 entrepreneurship, the empirical analysis will lean on evidence 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%	Feb 27
Midterm Exam II	20%	Apr 9
Group Presentation Assignment	15%	Apr 21 and 23
Class Participation	15%	
Final Exam	30%	tba

As indicated in the table, 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. Topics for the group presentation assignment and 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 15% 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

January 23: Introduction

Week of 1/27: 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 2/03: 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 2/10: 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 2/17: 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 2/24: 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. 27

Spring Break: 03/07 – 03/15

Week of 03/16: Summarizing Entrepreneurship

Part II. Labor Markets

Week of 3/23: (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 3/30: 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 04/06: 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.

Second Midterm Exam: Thursday April 9

Week of 04/13: 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.

Student Group Presentations – April 21 and 23

Week of 4/27: 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>