

Detailed Contents

Preface xvii

CHAPTER 1 INTRODUCTION 1

The Labor Market 2

Labor Economics: Some Basic Concepts 3

Positive Economics 3

The Models and Predictions of Positive Economics 4

Normative Economics 7

Normative Economics and Government Policy 10

Plan of the Text 13

EXAMPLE 1.1 POSITIVE ECONOMICS: WHAT DOES IT MEAN TO
"UNDERSTAND" BEHAVIOR? 6

EXAMPLE 1.2 WHY ECONOMISTS DISAGREE ABOUT POLICY
PROPOSALS 14

APPENDIX 1A STATISTICAL TESTING OF LABOR MARKET
HYPOTHESES 17

CHAPTER 2 OVERVIEW OF THE LABOR MARKET 25

The Labor Market: Definitions, Facts, and Trends 26

The Labor Force and Unemployment 27

Industries and Occupations: Adapting to Change 29

The Earnings of Labor 32

How the Labor Market Works 36

The Demand for Labor 37

The Supply of Labor 41

The Determination of the Wage 44

Applications of the Theory 52

Who Is Underpaid and Who Is Overpaid? 52

International Differences in Unemployment 57

EXAMPLE 2.1 THE BLACK DEATH AND THE WAGES OF LABOR 49

EXAMPLE 2.2 ENDING THE CONSCRIPTION OF YOUNG AMERICAN
MEN: THE ROLE OF ECONOMISTS 56

CHAPTER 3 THE DEMAND FOR LABOR 62

Profit Maximization	63
<i>Marginal Income from an Additional Unit of Input</i>	64
<i>Marginal Expense of an Added Input</i>	66
The Short-Run Demand for Labor When Both Product and Labor Markets Are Competitive	66
<i>A Critical Assumption: Declining MP_L</i>	67
<i>From Profit Maximization to Labor Demand</i>	68
The Demand for Labor in Competitive Markets When Other Inputs Can Be Varied	74
<i>Labor Demand in the Long Run</i>	74
<i>More Than Two Inputs</i>	76
Labor Demand When the Product Market Is Not Competitive	78
Monopsony in the Labor Market	79
<i>Profit Maximization</i>	80
<i>How Do Monopsonists Respond to Supply Shifts and Mandated Wage Increases?</i>	82
Policy Application: The Labor Market Effects of Employer Payroll Taxes and Wage Subsidies	86
<i>Who Bears the Burden of a Payroll Tax?</i>	86
<i>Are Payroll Taxes Responsible for European Unemployment?</i>	89
<i>Employment Subsidies as a Device to Help the Poor</i>	90
EXAMPLE 3.1 THE MARGINAL REVENUE PRODUCT OF COLLEGE FOOTBALL STARS	65
EXAMPLE 3.2 MONOPSONY IN THE COAL FIELDS? PROBABLY NOT	82
EXAMPLE 3.3 ARE TARGETED WAGE SUBSIDIES HARMFUL?	92
APPENDIX 3A GRAPHIC DERIVATION OF A FIRM'S LABOR DEMAND CURVE	96

CHAPTER 4 LABOR DEMAND ELASTICITIES 105

The Own-Wage Elasticity of Demand	106
<i>The Hicks-Marshall Laws of Derived Demand</i>	108
<i>Estimates of Own-Wage Labor Demand Elasticities</i>	112
<i>Applying the Laws of Derived Demand: Inferential Analysis</i>	113
The Cross-Wage Elasticity of Demand	116
<i>Can the Laws of Derived Demand Be Applied to Cross-Elasticities?</i>	117
<i>Estimates Relating to Cross-Elasticities</i>	119

Policy Application: Effects of Minimum Wage Laws	120
<i>History and Description</i>	120
<i>Employment Effects: Theoretical Analysis</i>	121
<i>Employment Effects: Empirical Estimates</i>	127
<i>Does the Minimum Wage Fight Poverty?</i>	131
Applying Concepts of Labor Demand Elasticity to the Issue of Technological Change	132
EXAMPLE 4.1 WHY ARE UNION WAGES SO DIFFERENT IN TWO PARTS OF THE TRUCKING INDUSTRY?	115
EXAMPLE 4.2 THE IMPACT OF THE FIRST FEDERAL MINIMUM WAGE	130
APPENDIX 4A INTERNATIONAL TRADE AND THE DEMAND FOR LABOR: CAN HIGH-WAGE COUNTRIES COMPETE?	137

CHAPTER 5 **QUASI-FIXED LABOR COSTS AND THEIR EFFECTS ON DEMAND** 144

Nonwage Labor Costs	145
<i>Hiring and Training Costs</i>	145
<i>Employee Benefits</i>	146
<i>The Quasi-Fixed Nature of Many Nonwage Costs</i>	147
The Employment/Hours Trade-off	148
<i>Determining the Mix of Workers and Hours</i>	149
<i>Policy Analysis: The Overtime-Pay Premium</i>	150
<i>Policy Analysis: Part-Time Employment and Mandated Employee Benefits</i>	153
Firms' Labor Investments and the Demand for Labor	155
<i>The Concept of Present Value</i>	157
<i>The Multiperiod Demand for Labor</i>	159
<i>Constraints on Multiperiod Wage Offers</i>	161
General and Specific Training	163
<i>Specific Training and the Wage Profile</i>	164
<i>Implications of the Theory</i>	168
<i>Do Employers Ever Pay for General Training?</i>	172
Hiring Investments	173
<i>The Use of Credentials</i>	173
<i>Internal Labor Markets</i>	174
<i>How Can the Employer Recoup Its Hiring Investments?</i>	175
EXAMPLE 5.1 "RENTING" WORKERS AS A WAY OF COPING WITH FLUCTUATIONS IN PRODUCT DEMAND	151

EXAMPLE 5.2 UNJUST DISMISSAL POLICIES 156
EXAMPLE 5.3 APPRENTICESHIP IN THE UNITED STATES
AND BRITAIN 166
EXAMPLE 5.4 TRAINING AND JOB TENURE LEVELS IN UNITED STATES
AND JAPAN 168

**CHAPTER 6 SUPPLY OF LABOR TO THE ECONOMY:
THE DECISION TO WORK 178**

Trends in Labor Force Participation and
Hours of Work 178
A Theory of the Decision to Work 183
 Some Basic Concepts 184
 Analysis of the Labor/Leisure Choice 188
 *Empirical Findings on the Income and Substitution
 Effects* 202
Policy Applications 206
 Budget Constraints with "Spikes" 206
 Programs with Net Wage Rates of Zero 208
 *Subsidy Programs with Positive Effective
 Wage Rates* 211
EXAMPLE 6.1 DO LARGE INHERITANCES INDUCE LABOR FORCE
WITHDRAWAL? 195
EXAMPLE 6.2 LABOR SUPPLY EFFECTS OF INCOME TAX CUTS 203
EXAMPLE 6.3 THE LABOR SUPPLY OF PIGEONS 205
EXAMPLE 6.4 STAYING AROUND ONE'S KENTUCKY HOME: WORKERS'
COMPENSATION BENEFITS AND THE RETURN TO WORK 208
EXAMPLE 6.5 WARTIME FOOD REQUISITIONS AND AGRICULTURAL
WORK INCENTIVES 214
APPENDIX 6A CHILD CARE, COMMUTING, AND THE FIXED COSTS OF
WORKING 218

**CHAPTER 7 LABOR SUPPLY: HOUSEHOLD PRODUCTION,
THE FAMILY, AND THE LIFE CYCLE 223**

The Theory of Household Production 223
The Tripartite Choice: Market Work, Household
Work, and Leisure 227
Joint Labor Supply Decisions Within the
Household 231
 Specialization of Function 231
 Do Both Partners Work for Pay? 233

<i>The Joint Decision and Cross-Effects</i>	234
<i>Labor Supply in Recessions: The “Discouraged” vs. the “Additional” Worker</i>	234
Life-Cycle Aspects of Labor Supply	237
<i>The Labor Force Participation Patterns of Married Women</i>	237
<i>The Substitution Effect and When to Work over a Lifetime</i>	238
<i>The Choice of Retirement Age</i>	241
Policy Application: Child Care and Labor Supply	245
EXAMPLE 7.1 WORK AND LEISURE: PAST VS. PRESENT	230
EXAMPLE 7.2 THE VALUE OF A HOMEMAKER’S TIME	239

CHAPTER 8 COMPENSATING WAGE DIFFERENTIALS AND LABOR MARKETS 251

Job Matching: The Role of Worker Preferences and Information	251
<i>Individual Choice and Its Outcomes</i>	252
<i>Assumptions and Predictions</i>	254
<i>Empirical Tests for Compensating Wage Differentials</i>	257
Hedonic Wage Theory and the Risk of Injury	259
<i>Employee Considerations</i>	260
<i>Employer Considerations</i>	262
<i>The Matching of Employers and Employees</i>	264
<i>Normative Analysis: Occupational Safety and Health Regulation</i>	267
Hedonic Wage Theory and Employee Benefits	274
<i>Employee Preferences</i>	274
<i>Employer Preferences</i>	276
<i>The Joint Determination of Wages and Benefits</i>	279
<i>Policy Application: Pension Reform Legislation</i>	281
EXAMPLE 8.1 WHAT PRICE THE MORAL HIGH GROUND?	255
EXAMPLE 8.2 WORKING ON THE RAILROAD: MAKING A BAD JOB GOOD	260
EXAMPLE 8.3 COMPENSATING WAGE DIFFERENTIALS IN 19TH-CENTURY BRITAIN	268
APPENDIX 8A COMPENSATING WAGE DIFFERENTIALS AND LAYOFFS	285

**CHAPTER 9 INVESTMENTS IN HUMAN CAPITAL:
EDUCATION AND TRAINING 290**

Human Capital Investments: The Basic Model 293
The Demand for a College Education 295
 Weighing the Costs and Benefits of College 296
 Predictions of the Theory 297
 *Market Responses to Changes in
 College Attendance* 303
Education, Earnings, and Postschooling Investments
in Human Capital 303
 Average Earnings and Educational Level 305
 *On-the-Job Training and the Concavity of
 Age/Earnings Profiles* 306
 The Fanning out of Age/Earnings Profiles 308
 Women and the Acquisition of Human Capital 309
Is Education a Good Investment? 314
 Is Education a Good Investment for Individuals? 314
 Is Education a Good Social Investment? 318
 Is Public Sector Training a Good Social Investment? 327
EXAMPLE 9.1 WAR AND HUMAN CAPITAL 292
EXAMPLE 9.2 THE CONSUMPTION VALUE OF SCHOOLING DURING
THE VIETNAM WAR 298
EXAMPLE 9.3 VALUING A HUMAN ASSET: THE CASE OF THE
DIVORCING DOCTOR 315
EXAMPLE 9.4 THE SOCIALLY OPTIMAL LEVEL OF EDUCATIONAL
INVESTMENT 324
APPENDIX 9A A "COBWEB MODEL" OF LABOR MARKET
ADJUSTMENT 331
APPENDIX 9B A HEDONIC MODEL OF EARNINGS AND EDUCATIONAL
LEVEL 335

**CHAPTER 10 WORKER MOBILITY: MIGRATION,
IMMIGRATION, AND TURNOVER 340**

The Determinants of Worker Mobility 341
Geographic Mobility 342
 The Direction of Migratory Flows 343
 Personal Characteristics of Movers 344
 The Role of Distance 346
 *Skills, the Earnings Distribution, and International
 Migration* 347

The Individual Returns to International and Domestic Migration 348
Return Migration 352
 Policy Application: Restricting Immigration 352
 U.S. Immigration History 353
 Naive Views of Immigration 355
 An Analysis of the Gainers and Losers 357
 Do the Overall Gains from Immigration Exceed the Losses? 361
 Employee Turnover and Job Matching 363
 The Patterns of Job Mobility 364
 Costs of Turnover and the Monopsony Model 371
 EXAMPLE 10.1 THE GREAT MIGRATION: SOUTHERN BLACKS MOVE NORTH 345
 EXAMPLE 10.2 "ECONOMIC" VS. "POLITICAL" IMMIGRANTS 351
 EXAMPLE 10.3 THE MARIEL BOATLIFT AND ITS EFFECTS ON MIAMI'S WAGE AND UNEMPLOYMENT RATES 360

CHAPTER 11 PAY AND PRODUCTIVITY: WAGE DETERMINATION WITHIN THE FIRM 377

The Employment Contract 378
 Coping with Information Asymmetries 379
 Motivating Workers 382
 Motivating the Individual in a Group 384
 Compensation Plans: Overview and Guide to the Rest of the Chapter 387
 Productivity and the Basis of Yearly Pay 388
 Employee Preferences 388
 Employer Considerations 390
 Productivity and the Level of Pay 396
 Productivity and the Sequencing of Pay 400
 Underpayment Followed by Overpayment 400
 Promotion Tournaments 404
 Career Concerns and Productivity 406
 Applications of the Theory: Explaining Three Puzzles 408
 Why Do Earnings Increase with Job Tenure? 408
 Why Do Large Firms Pay More? 410
 Monopsonistic Behavior by Employers 412
 EXAMPLE 11.1 THE WIDE RANGE OF POSSIBLE PRODUCTIVITIES: THE CASE OF THE FACTORY THAT COULD NOT CUT OUTPUT 378

EXAMPLE 11.2 CALORIE CONSUMPTION AND THE TYPE OF PAY	385
EXAMPLE 11.3 POOR GROUP INCENTIVES DOOM THE SHAKERS	393
EXAMPLE 11.4 DID HENRY FORD PAY EFFICIENCY WAGES?	399
EXAMPLE 11.5 DEMANDING EMPLOYERS, OVERWORKED EMPLOYEES, AND NEGLECTED FAMILIES	405

CHAPTER 12 GENDER, RACE, AND ETHNICITY IN THE LABOR MARKET 415

Measured and Unmeasured Sources of Earnings Differences 416

Earnings Differences by Gender 417

*Earnings Differences between Black and White
Americans* 426

Earnings Differences by Ethnicity 430

Theories of Market Discrimination 433

Personal-Prejudice Models 433

Statistical Discrimination 440

Noncompetitive Models of Discrimination 444

Evaluation of Discrimination Theories 449

Federal Programs to End Discrimination 450

Equal Pay Act of 1963 450

Title VII of the Civil Rights Act 450

The Federal Contract Compliance Program 459

*Effectiveness of Federal Antidiscrimination
Programs* 462

EXAMPLE 12.1 THE GENDER EARNINGS GAP ACROSS COUNTRIES 423

EXAMPLE 12.2 FEAR AND LATHING IN THE MICHIGAN FURNITURE INDUSTRY 441

EXAMPLE 12.3 COMPARABLE WORTH AND THE UNIVERSITY 456

EXAMPLE 12.4 HOW FAST CAN DISCRIMINATION BE ERADICATED? 463

APPENDIX 12A ESTIMATING "COMPARABLE WORTH" EARNINGS GAPS: AN APPLICATION OF REGRESSION ANALYSIS 468

CHAPTER 13 UNIONS AND THE LABOR MARKET 472

Union Structure and Membership 472

International Comparisons of Unionism 473

The Legal Structure of Unions in the United States 475

Constraints on the Achievement of Union Objectives	478
<i>The "Monopoly-Union" Model</i>	480
<i>The "Efficient-Contracts" Model</i>	481
The Activities and Tools of Collective Bargaining	486
<i>Union Membership: An Analysis of Demand and Supply</i>	486
<i>Union Actions to Alter the Labor Demand Curve</i>	492
<i>Bargaining and the Threat of Strikes</i>	495
<i>Bargaining in the Public Sector: The Threat of Arbitration</i>	500
The Effects of Unions	503
<i>The Theory of Union Wage Effects</i>	504
<i>Evidence of Union Wage Effects</i>	507
<i>Evidence of Union Total Compensation Effects</i>	510
<i>The Effects of Unions on Employment</i>	511
<i>The Effects of Unions on Productivity and Profits</i>	512
<i>Normative Analyses of Unions</i>	513
EXAMPLE 13.1 DEREGULATION AND THE AIRLINES	491
EXAMPLE 13.2 PERMANENT REPLACEMENT OF STRIKERS	498
EXAMPLE 13.3 INVESTMENT AND UNIONIZATION	513
APPENDIX 13A ARBITRATION AND THE BARGAINING "CONTRACT ZONE"	519

CHAPTER 14 INEQUALITY IN EARNINGS 524

Measuring Inequality	525
Earnings Inequality since 1980: Some Descriptive Data	528
<i>The Occupational Distribution</i>	530
<i>Changes in Relative Wages</i>	530
<i>Relative Changes in Hours of Work</i>	532
<i>Growth of Earnings Dispersion within Human Capital Groups</i>	534
<i>Summarizing the Dimensions of Growing Inequality</i>	534
The Underlying Causes of Growing Inequality	536
<i>Changes in Supply</i>	536
<i>Changes in Institutional Forces</i>	539
<i>Changes in Demand</i>	540
International Comparisons of Changing Inequality	548

Why Did Inequality Grow Most in Great Britain and the United States? 549

Causes and Effects of Different Real Wage Changes among the Unskilled 552

EXAMPLE 14.1 CHANGES IN THE PREMIUM TO EDUCATION AT THE BEGINNING OF THE TWENTIETH CENTURY 543

EXAMPLE 14.2 DO WE OBSERVE "RAGS TO RICHES"? THE TRANSMISSION OF INEQUALITY ACROSS GENERATIONS 546

APPENDIX 14A LORENZ CURVES AND GINI COEFFICIENTS 556

CHAPTER 15 UNEMPLOYMENT 560

A Stock-Flow Model of the Labor Market 562

Types of Unemployment and Their Causes 566

Frictional Unemployment: The Theory of Job Search 566

Structural Unemployment: Occupational and Regional Unemployment Rate Differences 574

Demand-Deficient (Cyclical) Unemployment 581

Seasonal Unemployment 588

When Do We Have "Full Employment"? 590

EXAMPLE 15.1 THE UNEMPLOYMENT INSURANCE BONUS EXPERIMENTS 572

EXAMPLE 15.2 UNEMPLOYMENT INSURANCE AND SEASONAL UNEMPLOYMENT: A HISTORICAL PERSPECTIVE 589

Answers to Odd-Numbered Review Questions and Problems 597

Name Index 635

Subject Index 641