

# ECONOMICS OF HUMAN RESOURCES

## (Oral Communication)

Spring 2007  
ECON 430  
MW 12:30 -1:45  
Miller Hall 101  
Instructor: Professor SH. Lee

### Course Outline

Does college education truly increase a worker's productivity and earnings? Should the government increase minimum wage? Are salaries of top executives too high? How does business decide how many people to employ? What determines who chooses to work, and who does not? What characteristics make it more or less likely that workers will change locations or jobs? How do nature of technology and the tastes of workers interact to generate the wage differentials? How do earnings differ among families and individuals?

Economics of Human Resources tries to answer these questions. This course aims to present an analysis of the main areas in human resources and labor economics. In particular, this course includes very close scrutiny of the most recent U.S. labor policy, trends in employment and unemployment, wages and income distribution, and labor market outcomes. This course fulfills the Oral Communication requirement. Prerequisite is Econ 301 or consent.

### Text

Modern Labor Economics by Ehrenberg, R.G. and Robert S. Smith (2005, 9<sup>th</sup> ed. Addison Wesley Longman) is required and available on the bookstore for purchase. Older version of the textbook is also ok.

### Assignment

Assignments include i) four debate sessions which also requires students' presentational speaking (also requiring one-page summaries of debate issues and positions, ii) three discussions of assigned readings and a discussion on a film, iii) quizzes and one final exam.

Debate and presentational speaking: Each student will choose two topics from assigned topics. Exploiting assigned topic, each student will develop a 5 minutes presentation which cannot be read. Students should also submit 1 page (single space) of debate summary (issues and positions) before the class. Each student will receive brief roles in formal debates and play a role in each debate. See the attached handouts for details on debate topics.

Discussions of assigned readings and a film: Each reading has a discussion day, during which students can discuss issues relevant to the book and course. See the attached handout for an example. I will also distribute issue papers in class in order to stimulate discussion.

### **Feedback**

Feedback from peers: In the class following each debate, students will respond to the various arguments and evidence presented during the debate. They will also discuss their problems and successes in presenting the debate position, in preparing arguments and evidence, in making eye contact, in handling notes. etc. This will be done in such a way that we as a class can discuss without drawing particular or potentially embarrassing attention to anyone's shortcomings.

Instructor feedback: I will use the self-evaluation and feedback from peers (possibly midterm and the end of semester), hoping to allow me to play off of students' own analyses in providing out-of-class written and oral feedback (arguments, handling notes, eye-contact, etc). I will also spend time with students talking about the discussion process and the characteristics of good discussions.

### **Grading**

Debate, discussion, class participation	40%
Quizzes	20%
Final exam	40%

The oral communication performance will count for 40% of the final grade. Several quizzes and a comprehensive final exam will count for 60% of the final grade. This will assure that students can maintain a good grade although speaking is not one of their strength. Furthermore, because each student's leaning progress will be considered, initial weakness in speaking will not ruin a student's course grade. Class attendance is mandatory. Final exam is scheduled on May 7 (Monday) 12:00-2:00 PM.

### **Help**

Office Hours: MW 9:30-11:00 or by appointment  
Office: SSB 512  
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## **Schedule**

1. Overview of the Labor Market (Ch. 2)
  - Demand for labor and supply of labor
  - Determination of wage
  
2. Demand for Labor (Ch. 3, 4, 5)
  - Short-run vs. Long-run
  - Payroll tax and other policy applications
  - Wage elasticity
  - Minimum wage laws
  
3. Supply of Labor (Ch. 6, 7)
  - Decision to work
  - Income and substitution effects
  - Household production
  - Effect of child care
  - Labor force participation patterns by age and sex
  
4. Investment in Human Capital (Ch. 9, 5)
  - Schooling investment model
  - Measuring returns to schooling
  - Difficulties (signaling, quality, etc.)
  - General vs. specific training
  
5. Worker Mobility, Unemployment, and Migration (Ch. 10, 15)
  - Migration decision (individual and family)
  - Turnover
  - Job search
  - Vacancies and unemployment
  
6. Wage Structure (Ch. 8, 11)
  - Compensating wage differentials
  - Employee benefits
  - Effort, productivity, and pay
  - Efficiency wages
  
7. Gender and Race in Pay (Ch. 12)
  - Theories of discrimination
  - Measuring discrimination
  
8. Unions (Ch. 13)
  - Union structure
  - Theory of collective bargaining
  - Effects of unions
  
9. Inequality in Earnings (Ch. 14)

## Debate Topics

### Debate : Round 1

\* Students should submit 1 page (single space) of debate summary (issues and positions) before the class.

Topic: Does education really increase productivity and wages?

→ Is education a good investment from both an individual and a social perspective?

→ Why people with more education receive higher wages?

#### Teams

Affirmative	Negative

#### List of major concepts

1. Investments in human beings are part of the general category of investment (what kinds of benefits?)
2. Investment entail costs (what kinds of costs?)
3. Evaluations of whether education is a good individual investment involve several sets of biases (what are they?)
4. Evaluations of whether education is a good social investment must consider that the education might act as a screening device (what is it?)
5. Think carefully why people with same education receive different wages.
6. What is sheepskin (diploma) effect?

## Debate : Round 2

\* Students should submit 1 page (single space) of debate summary (issues and positions) before the class.

Topic: Should the US open borders more and allow more immigrants?

Teams

Affirmative	Negative

Note: Immigration is a sensitive political issue. It is also one that is easily clouded by issues of race and class. Many public discussions of the topic are ill-informed with inaccurate or incomplete information. Finally, it is a multilayered issue that probably too often lumps together issues that should be dealt with separately. For example, illegal immigration, political refugees, and legal immigrants (J1, H1B visa) are clearly three very different populations. The debate we are going to have is intended more to provoke thinking and discussion than to lead one to a “correct answer”, though the tools of Chapter 10 and previous chapters should help you develop an appropriate economic analysis.

List of major concepts

1. What characteristics make it more or less likely that workers will change locations, especially internationally?
2. How do economic effects, in particular differences in wages and unemployment affect migration?
3. What are the impacts of migration on who move?
4. Is illegal migrants harmful to natives (income)?
5. What are the impacts of migration receiving country and sending country (especially labor market)?
6. How is distribution of wages related with immigration?
7. How is immigration or its impact significantly affected by public policies?

### Debate : Round 3

\* Students should submit 1 page (single space) of debate summary (issues and positions) before the class.

Topic: Are salaries of top executives too high?

Teams

Affirmative	Negative

List of major concepts

1. How can employers create and maintain incentives for workers?
2. How do different mechanisms for paying workers affect effort?
3. How are jobs structured to take into account long-term relationships between workers and employers?
4. How does the existence of an internal labor market imply about the relationship between age and earnings?
5. Why is there the promotion tournament?
6. What is the drawback of promotion tournament?
7. Is there a government interference in private salary decisions, such as limiting pay of top executives?

## Debate : Round 4

\* Students should submit 1 page (single space) of debate summary (issues and positions) before the class.

Topic: Do you vote for (the Bus) strike?

Teams

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List of major concepts

1. How do patterns of unionization differ among industries and occupations?
2. What causes these differences? And why does unionization differ across demographic groups?
3. What are the union goals?
4. What determines the bargaining power of firms and unions?
5. What determines when a strike occurs?
6. How frequent are strikes, and what are their economic impacts on strikers, employers, and economy as a whole?
7. How does public policy affect the chance of a strike occurring?
8. What are the union goals?

Appendix:

Student Evaluation of Debate

Name \_\_\_\_\_

I. Were the claims supported effectively?

- 1) Statement/refutation/conclusion
- 2) Demonstrate knowledge (use of theory and evidence)
- 3) Speaking skills: speak loudly and clearly

II. Was the argument well organized?

- 1) Use time efficiently
- 2) Demonstrate preparedness for debate, handling notes
- 3) Stick to the point/ask relevant questions

III. Does the person take debate seriously?

- 1) Demonstrate enthusiasm
- 2) Respect opponent/team/audience
- 3) Eye contact/sit (stand) straight

Group A				Group B					
		Fair	Good	Excellent			Fair	Good	Excellent
I					I				
II					II				
III					III				

Written comments:

Ex) Discussion Topic 1: **Lifetime Employment: Be Careful What You Ask For**

Throughout the 1980s and into the early 1990s, many who compared the economies of the United States and Japan found much to admire in the Japanese system. One feature of the Japanese economy that seemed especially attractive for many was a guarantee of lifetime employment with the same company. Unemployment has always been a significant reality of the American economic system. There have been cyclical downturns that resulted in major layoffs (such as in 1981-82, and less so in 1991-92). Painful restructuring at many American firms during the past two decades resulted in permanent separations. The normal ebb and flow of new technologies and new products replacing the old also creates millions of new jobs, at the same time destroying millions of others. Continually reminded by the media's latest reports of yet another layoff or downsizing, many wondered if the Japanese system of guaranteed lifetime employment was not only more humane, but also more efficient.

An article in the *Wall Street Journal* calls such thinking into question. Part of the problem stems from inaccurate perceptions--differences between the reality in Japan compared to a mythical Japan resulting from incomplete and inaccurate reporting. For example, according to the article, the lifetime employment guarantees applied primarily to core workers at big companies, and women were rarely eligible. In addition, while many employers retain their employees even when demand for their services is lacking, the employment is not necessarily very satisfying. Companies routinely create "make-work" activities for unneeded employees, or allow them to go without assignments. One worker facing the latter case reported going to the zoo and lots of movies to kill time.

Of greater interest for purposes of the labor demand chapter, however, are the economic dimensions of the employment guarantees. The guarantees seemingly provide workers with protection from demand shifts, and make labor demand perfectly inelastic. Such protection might appear to be the envy of workers throughout the world, but the long-term implications of such a policy appear now to be one source of Japan's economic difficulties. Supporters of the lifetime employment system have correctly credited it with giving Japanese firms great incentive to train their workers. Workers, meanwhile, made lifetime commitments to their firms and saw their own interests intertwined with the interests of the firm. Japanese workers were thus considered far less likely to resist the introduction of new technology than American workers who might see their jobs threatened.

But there was a down side to this system that didn't seem to get much attention, until lately. Facing a potential lifetime commitment, Japanese firms tended to be far less likely to offer employment than American firms. According to the article, the total number of jobs in America grew by 1.7 percent per year during the 1980s, despite huge layoffs in the 1981-82 recession and corporate restructuring and downsizing throughout the decade. In Japan, meanwhile, where markets were seemingly booming throughout the period, the number of jobs rose only 1 percent per year. Now, as competitive pressures mount, Japanese firms are being forced to layoff workers in order to survive, and the number of jobs actually declined in the 1990s. Layoffs have by no means become common. But the

article reported that many firms are pressuring employees into early retirement. Some of the early retirement plans are not exactly voluntary, using negative inducements such as threatened wage cuts--30 percent in one example--instead of buy-outs and severance pay packages common in the United States.

Jobs are lost in the United States as well--over half a million in 1998. But over two million new jobs were added to replace them. Interestingly, the unemployment rates in the United States and Japan were identical in November, 1998, for the first time since Japan started keeping statistics 45 years ago. While the U.S. rate was causing concerns about wage inflation and labor shortages hindering expansion, the rate in Japan was being viewed as a crisis for job security long taken for granted.

Source: "Sign of Changed Times: Japan's Jobless Rate Rises to the U.S. Level," *The Wall Street Journal*, December 28, 1998 (pp. A1, A8).

1. Why would American workers be more likely to resist the introduction of new technologies in the workplace than Japanese workers with lifetime employment guarantees?
2. Lifetime employment guarantees would seemingly make the elasticity of demand for labor zero and the demand curve vertical. This was apparently only true in the short run, however. As layoffs arrive in Japan, are scale or substitution effects playing a bigger role? Explain your reasoning.
3. If a firm offers workers a choice of retiring or having their wages cut 30 percent, is their labor demand elasticity still zero?