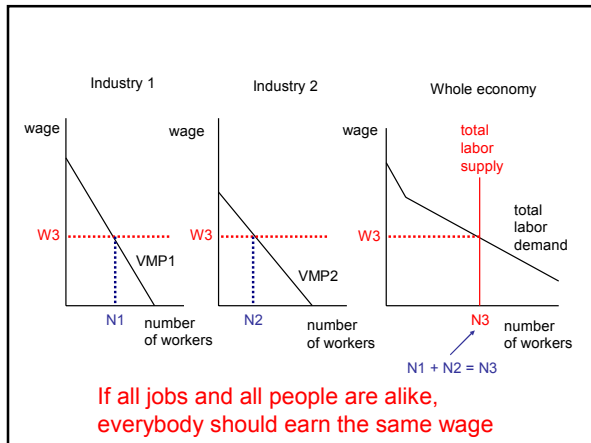


- Second exam over Chapters 10-12 on Wednesday Nov 16
- Answers to practice second exam will be reviewed in discussion sections week of Fri Nov 4 to Wed Nov 9
- An alternative practice exam is also available on the course web page
- No class or discussion sections on Friday Nov 11 (Veterans Day university holiday)

Chapter 13: Labor Markets, Poverty, and Income Distribution

- A. Demand for labor
- B. Firm versus industry labor demand
- C. Supply of labor
- D. Determinants of wages
 1. Wages when all people have same abilities and same interests and all jobs look alike



Chapter 13: Labor Markets, Poverty, and Income Distribution

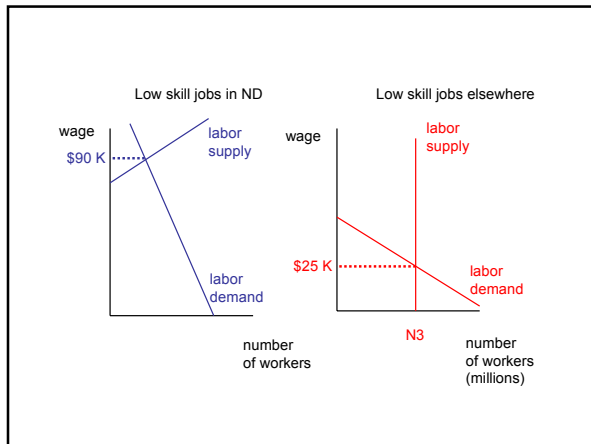
- D. Determinants of wages
 1. Wages when all people have same abilities and same interests and all jobs look alike
 2. Wages when some people are unable or unwilling to do certain jobs

Oil field workers today in North Dakota earn \$90,000 on average



Oil field workers today in North Dakota earn \$90,000 on average





Definition:

A *compensating wage differential* is a difference in the wage rate that reflects the attractiveness of a job's working conditions

Oil workers in North Dakota receive a positive compensating wage differential

A compensating wage differential can be negative if people would want that job even if it pays less than others.

Examples:

- median income of dancers is \$21,000
- median income of zoo workers is \$16,500

Some jobs may require skills that many people do not have, or effort that many are unwilling to commit

The average 30-year-old college graduate earns \$15,000 more per year than high-school graduate

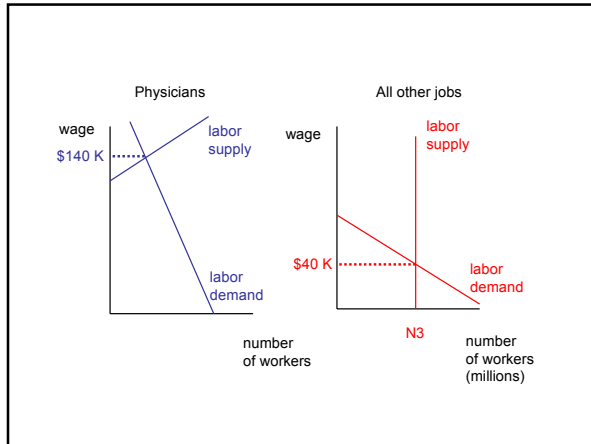


The average 55-year-old college graduate earns \$30,000 more per year

Definition:

Human capital refers to the combination of education, experience, training, intelligence, energy, work habits, trustworthiness, and initiative, that may determine an individual's VMP.

Some economists believe that most differences in wages can be attributed to differences in human capital



Median earnings by college major

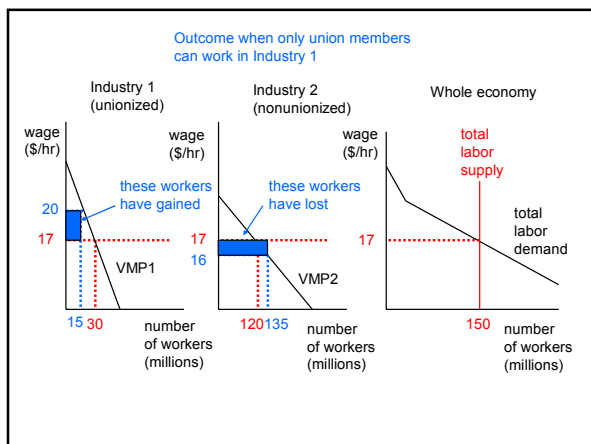
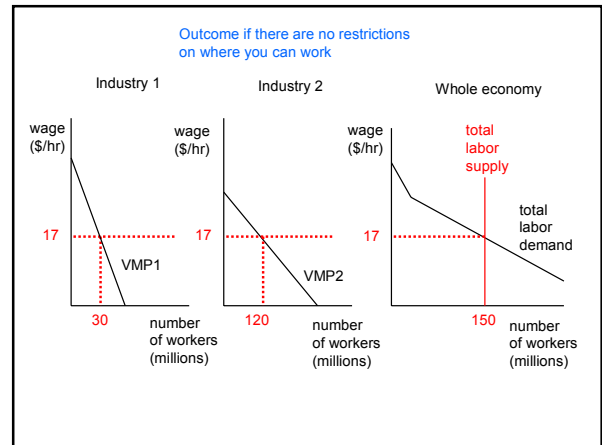
Major	Median salary
Petroleum engineering	\$127,000
Electrical engineering	\$86,000
Economics	\$69,000
History	\$50,000
Library science	\$36,000

Source: Wall St. Journal, Nov 7, 2011 (<http://blogs.wsj.com/economics/2011/11/07/college-majors-and-unemployment-rates/?mod=WJSJBlog>)

Chapter 13: Labor Markets, Poverty, and Income Distribution

D. Determinants of wages

1. Wages when all people have same abilities and same interests and all jobs look alike
2. Wages when some people are unable or unwilling to do certain jobs
3. Wages when some people are restricted from doing certain jobs



Winners:

- union members who stay employed

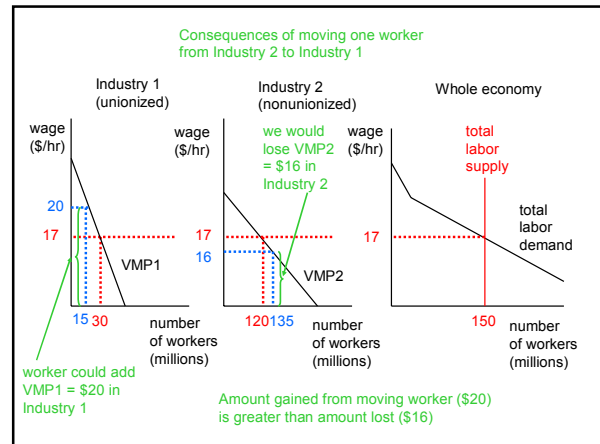
Losers:

- union members who lose their jobs
- non-union members
- firms in union sectors

Can we compare total dollar value for each?

Outcome is socially inefficient because too few people are now working in union sector

Take 1 worker from nonunion sector and put on union job



Chapter 13: Labor Markets, Poverty, and Income Distribution

D. Determinants of wages

E. Labor market imperfections

1. Market power

monopoly:

only one seller of a product

monopsony:

only one buyer of product

- A single firm in a company town might be the most important buyer of labor
- It may be costly for an employee to leave a firm, giving the firm some bargaining power

- **monopoly:** marginal revenue from selling one more item is less than the price
- reason: to sell one more item, need to lower price other units sold for
- **monopsony:** marginal cost of hiring one more worker is greater than the wage
- reason: to hire one more worker, need to raise wage paid other workers

- firm that hires labor in perfectly competitive labor market: VMP = wage
- firm that hires labor as monopsonist buyer: VMP > wage
- in this view of labor market, perhaps labor unions negotiate wage back up to VMP rather than negotiate it above VMP

Chapter 13: Labor Markets, Poverty, and Income Distribution

- D. Determinants of wages
- E. Labor market imperfections
 1. Market power
 2. Imperfect wage-setting institutions

- Klaus Kleinfeld, CEO of Alcoa
- earned \$11.2 million in compensation in 2009
- company lost \$1.5 billion in 2009
- Board of Directors approved the compensation package
- Some argue that it is difficult for stockholders to ensure that boards of directors always act in stockholders' interest

- financial traders for AIG
- sold disastrous credit-default swaps against mortgage-backed securities
- earned \$544 million in bonuses in 2006
- was this correctly perceived VMP?

Chapter 13: Labor Markets, Poverty, and Income Distribution

- D. Determinants of wages
- E. Labor market imperfections
- F. Discrimination

Median weekly earnings

Could such differences be explained by differences in human capital or work preferences?

	Men	Women
White	\$847	\$699
Black	\$661	\$596
Asian	\$1,015	\$712
Hispanic	\$562	\$522

Source: BLS, "Usual Weekly Earnings", 2011:Q3

Fraction with college degree

But fraction for men and women is similar

White	30.3%
Black	19.8%
Asian	52.4%
Hispanic	13.9%

Source: Census Bureau, Educational Attainment in the U.S., 2010

Average hours worked per week:

men: 41.6

women: 35.9

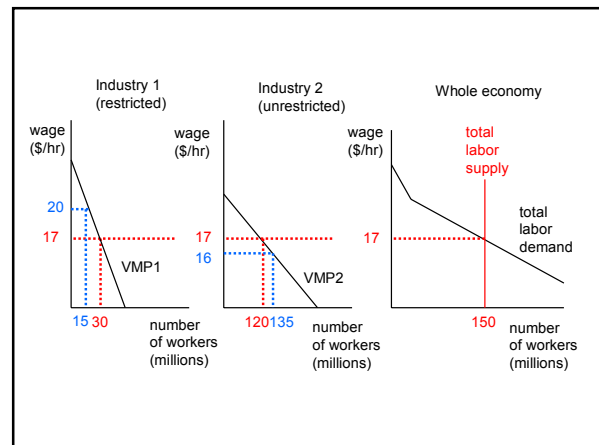
Source: BLS, "Characteristics of the Employed"

However, some differences persist even when we compare people of same observable characteristics

Some economists argue that this is just because many of the differences in human capital or preferences for type of work are not measured accurately

Suppose there were two different workers who would contribute the same VMP to the firm, but one would cost the firm 20% less than the other.

Then the firm could make more money by hiring the cheaper worker to do the same job.



Implication: pure discrimination (paying a higher wage to someone who is no better qualified because they are in a favored group) would not be in the economic interests of a firm

So how could we explain the existence of discrimination?

(1) ignorance— firm doesn't know it would make more profits if it didn't discriminate

But if that's the explanation, wouldn't smart firms come in and drive the ignorant people out of business?

(2) persistent historical advantages– social networking

(3) noneconomic forces– social pressure or physical coercion