Econ306: Labour Markets & Wages (Fall 2019)
Course Outline, Readings and Topics Guides
Monday/Wednesday, 10:05-11:25, Arts W-120

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Requirements
Econ 306 is designed to be taken as part of a Minor in Economics or a Major in Industrial Relations. It is a required course for the latter. It may, of course, be an elective. While Econ306 is eligible for credit in the Major Concentration in Economics it is recommended that the Major students take Econ 426 instead (with a prerequisite of Econ 230D). Econ 306 is not eligible for credit in the Honours Economics programme - do Econ 426 instead. Econ306 is not open to any student who has already taken Econ426. Finally, this course is not eligible for people who don’t have the prerequisites of Econ208 & Econ 209, nor for people enrolled in the Centre for Continuing Education, the Faculty of Dentistry, the Faculty of Law, and the Faculty of Medicine. (See McGill Course Calendar for specifics)

Course Readings

The required text is Labour Markets & Wages: Custom copy for McGill University, created for this course by McGraw-Hill Ryerson and available at Paragraphe bookstore, 2220 McGill College Avenue.* Parts of an introductory text by Ragan, Microeconomics, 15th & 16th edition, will also be used.** Further additional reading not from these texts will be made available on the myCourses web site - a valuable tool which you should check frequently for information and readings. You can also use it to ask your fellow students for assistance/clarification.

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Course Perspective

Introductory Economics showed wage rates determined by the demand and supply of labour. Even where that is true - and it isn’t true in all cases - the ‘market for labour’ is still very different than the market for a good like a bag of candy, or for a service like hairdressing, or for intermediate goods like trucks or robotic arms. Such products can’t think for themselves, can’t act in ways that conflict with the objectives of producers, are not subject to discrimination in ways that may help or hurt the discriminator, and can’t combine with each other to ‘bargain’ with the producing firm. Workers can do all of these things, and more. By the end of this course you should be able to identify the different wage structures used by firms and workers and understand the reasons for them.

The wage (i.e. ‘price’ of labour) and the manner of payment can differ depending on many things other than simple ‘Demand and Supply. Furthermore, institutions, practices and information within labour markets can change over time. Consider some examples, all of which influence the wages received by workers and paid by firms.

(a) Fifty or sixty years ago it was generally accepted as ‘normal’ and even desirable to pay women less than men for doing the same job, or to refuse to hire workers because of other personal characteristics (such as race or marital status). How much discrimination still exists? Why?

(b) People ‘invest’ in themselves (by going to university, for example). What is the ‘return’ in higher wages and better job conditions, and does it change over time?

(c) When firms ‘invest’ in their workers’ training, who pays and why?

(d) Different types of firms have different pay and benefit structures, some of which reward long-term attachment to the firm while others do not. Why is this? How can the firm get rid of older workers when compulsory retirement at (say) age 65 is illegal? Why should they want to?

(e) Why do workers in some types of job or firm want to unionize while others do not? What benefits do they get from unionization?

(f) ……. and more.
Contacting Us

My phone number is (514) 398-3938, but it is best to contact me by email at paul.dickinson@mcgill.ca. (You get a faster response and it avoids the danger of indecipherable recordings on the ‘phone.) My office hours (Mondays 12:00-1:00 & Wednesdays 1:00-2:00) are in Leacock 516. If you need to see me outside office hours, email your request along with your schedule and we will try to find some mutually convenient time. Make use of office hours whenever you are not sure you fully understand something! Your course assistant, Sau Lai Book, will also be available to help. Sau Lai has a weekly office hour (time and location to be determined). He can be reached by email at sau.book@mail.mcgill.ca Get to know him – he will be grading parts of your exams!

Examinations/Evaluation/Conduct

There will be a mid-term exam worth 30%, expected to be on Wednesday October 16th and a cumulative 3-hour final worth 70% (held during the final examination period as determined by the Faculty of Arts). They are "closed book" examinations - no texts, notes, cell phones or electronic memory devices allowed. The course grades may be curved at the instructor’s discretion. If you miss the mid-term for justifiable reasons (as determined by the instructor and subject to confirmation acceptable to the instructor) there are two options; you can have the final count as 100% of the course, or you can sit a deferred mid-term in McGill’s Study Break in the first week of March 2019. Students missing the mid-term without justifiable reason approved by the instructor will get a mark of zero for that exam and will not be eligible for a deferred mid-term.

McGill University’s Charter of Students’ Rights specifies that students have the right to submit written exams in English or in French.

Regulations require/recommend that you be reminded of the following:

McGill University values academic integrity. Therefore all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see http://www.mcgill.ca/srr/honest for more information). According to Senate regulations, instructors are not permitted to make special arrangements for final exams. Please consult the Calendar, section 4.7.2.1, General University Information and Regulations at www.mcgill.ca. In accord with McGill University’s Charter of Students’ Rights, students in this course have the right to submit in English or in French any written work that is to be graded.

In the event of extraordinary circumstances beyond the University’s control, the content and/or evaluation scheme in this course is subject to change.
TOPICS AND PRELIMINARY (TEXT) READING LIST

Note: This reading list is ‘preliminary’ because it only includes readings from the text. A list of complementary readings will be added later.

The references should be read in conjunction with the lecture topics. Some sections will be omitted as not relevant to this course – these will be identified as we go along. Other relevant information and analysis not in the text will be added in lectures. It is important that you attend lectures and ask questions - do not rely solely on the reading list below. Some topics and readings may be added/dropped depending on how fast/slow we move (see section VI). The weeks noted are estimates only and may change. (Note: There are 2 sets of page numbers in the custom text. The reading lists used the top set of page numbers.) The text has “Worked Examples” in each chapter. Try them if you wish, but if you find them too time-consuming, stop. There are interesting ‘Exhibit” boxes. The ones eligible for examination will be identified during lectures. Read the rest for interest – they are worth it.

I: Basic Microeconomic Theory

A: Labour markets
   1: Factor Markets: (Ragan, “Microeconomics, 15th or 16th Canadian Edition, Chapter 13)
   2: Labour as a Factor of Production. (Ragan, Chapter 14)

B: Labour Demand and Non-Wage Benefits/Costs
   Course Text, (Chapter 6)

II: Influences on Wage Determination & Relative Wages

A: Compensating Wage Differentials
   1: Analytical tool – Indifference Curves (myCourses)
   2: The Generic Analysis (Chap 8, pp.216-221)
   3: Application: Compensating Differentials and Safety Regulations (Chap 8, pp.222-226)
   5: Empirical Evidence & Policy Implications (Chap 8, pp.226-end)

B: Investment in Human Capital
   1. Net Present Value & returns to training/education (Chap 9, pp.239-246)
   2. Education as a Filter/Signaling/Sorting device (Chap 9, pp246-248)
   3. Evidence on returns to education (Lecture Summary of pp248-262)
   4. General vs. Specific training: Who Pays? (Chap 9, pp.262-265)
   5. Government Role and Program Evaluation (Chap 9, pp.265-267)

C: Wage Structures Across Markets: Persistence of Differentials
   (Focus here is on differentials that are not attributable to education/training)
   a. by occupation (Chap.10, pp.274-278, Table 10.1)
   b. by region (Chap.10, pp.280-283, Table 10.1)
   c. by industry & firm (Chap.10, pp.283-290, Tables 10.1 & 10.2)
   d. public sector vs. private sector (Chapter 10, pp 291-end)

Weeks 1 & 2

Weeks 2 & 3

Weeks 3 & 4

Week 5
III: Discrimination and Male-Female Earnings Differentials

a: Theories of Labour Market Discrimination (Chap.12, pp.334-341)
B: Evidence on Earnings Differentials (Chap.12, pp.346-353)
C: Policies to Combat Discrimination, & Evidence of Effect (Chap.12, pp.358-368)

IV: Institutional Arrangements and Influences

A: Free-market Wage Flexibility?

B: Compensation Systems & Attributes
   1. Agency Theory & Efficiency Wage Theory (Chap.13, pp.373-379)
   2. Efficiency, Competition & Cooperation/Teamwork (Chap.13, pp.379-387)
   3. Deferred Compensation (Chap.13, pp.388-392)
   4. Mandatory Retirement (Chap.13, pp.393-397)

C: Evidence & Applications

V: Unions and the Labour Market

A: Theory of Union Behaviour & Collective Bargaining (Chap.14)
   1. Information on Canada (pp. 402-417) [Background information - not examinable]
   2. Union objectives & constraints (pp. 417-425)
   3. Bargaining and Efficient Contracts (pp.425-428)
   4. Evidence on union preferences (pp.429-430)
   5. Bargaining power & restricting labour supply (pp.431-433 - omit Fig 14.8)

B: Impacts of Unions
   Parts of Chapter 15 as done in lectures.

VI: Selected Topics

This section is like an old well: some topics may be dropped down it & others may be pulled up from it.

I: Earnings differentials for other groups. (Chap.12, pp.353-357)

ii: Immigration, earnings & public policy
   1. What’s going on in Canada (Chap 11, pp.301-307)
   2. What impact does it have? (Chap 11, pp.308-313)
   3. How quickly do immigrants integrate/assimilate? (Chap 11, pp.313-323)
   4. Canada’s Brain Drain? (Chap 11, pp.323-end)
   5. The economics of illegal immigration in the US

iii: Job Creation, Wage Subsidies & Job Training

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