Department of Economics
University of Toronto

ECO340H1S – L0101
Labour Economics: The Distribution of Earnings

2020

Instructor:	TA:
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Description

Overview

Using tools from microeconomic theory and econometrics/statistics, this course studies the determinants of wages (and earnings) across labour markets. Topics include the theory of compensating differentials, human capital, discrimination, immigration, unions, and alternative models of compensation. Throughout the course, there is an emphasis on the evaluation of empirical evidence.

Learning Objectives

The primary objective of the course is to introduce students to the main tools employed by labour economists to understand a variety of labour market outcomes pertaining to differences in wages and earnings across individuals or groups. More precisely, students should expect to:

1. Gain an understanding of the primary microeconomic models used by economists to analyze the wage and earnings distribution in labour markets;
2. Gain an understanding of first-order empirical features of the Canadian labour market, as well as key dimensions of the relevant public policy implications and interventions;
3. Learn to apply microeconomic models to questions pertaining to labour market outcomes;
4. Learn to apply econometric/statistical methods to describe, summarize, and estimate relationships between key labour market variables. This includes a critical understanding of the limits to attributing causality between these variables;
5. Learn how to use primary sources of labour market data, including Statistics Canada's *Labour Force Survey* and censuses;
6. Communicate effectively, especially in written work.

The course is designed to support these learning outcomes, with a blended focus on microeconomic modelling, "hands on" experience working with labour market data, and ample opportunities to develop writing skills.

Prerequisites

Students must have the following prerequisites, as listed in the Calendar to take this course:

- *Intermediate Microeconomics*: (ECO200Y/ECO204Y/ECO206Y);
- *Intermediate Statistics*: (ECO220Y/ECO227Y/ (STA220H1, STA255H1)/ (STA237H1, STA238H1)/ (STA257H1, STA261H1);

- See: https://fas.calendar.utoronto.ca/course/ECO340H1

The Department of Economics checks prerequisites in all courses, and students who do not have them will be removed from the course. The course draws heavily on the material covered in both intermediate microeconomics and statistics (especially regression analysis).

Required Text

The required course textbook is:

- Benjamin, D., Gunderson, M., Lemieux, T., and C. Riddell, *Labour Market Economics*, Toronto: McGraw- Hill Ryerson, 2017 (8th edition). (BGLR)

Additional required and optional readings will be announced in class, and made available through the course website. Such readings include working papers, journal articles, and supplementary notes.

Software

Labour Economics is historically – and primarily – an empirical (evidence-based) sub-discipline of economics. Accordingly, the analysis of labour force data is a key element of this course. While it *may* be possible (though incredibly cumbersome) to get by with EXCEL, I strongly recommend that you acquire STATA (a common statistical package) and and install it on your computer. Indeed, STATA is the *only* software supported in this course. More specifically, you should purchase a six month license for Stata/IC ($US48), available at:

- https://library.utoronto.ca/ic/stata-gradplan-u-t

While we will provide an overview of, and opportunities for practice with STATA, there are many excellent online resources, including:

- data.princeton.edu/stata;
- https://www.stata.com/links/resources-for-learning-stata/

Students are also welcome to use R for the statistical analysis, with the caveat that it is not directly supported in this course.

Class Meetings/Contact

Lectures & Tutorials

Regular meetings are scheduled for:

- Wednesdays, 4:00pm - 6:00pm, MP134
- Fridays, 10:00am - 11:00am, MP134

We will make extensive use of *both* time slots. Lectures are typically two hours per week in the Wednesday slot. The Friday slot will be used for a variety of purposes, including reviewing problem set questions, and workshops in support of the term paper. Details will be provided on Quercus.

Office Hours

- Mondays, 4:40pm-6:00pm, Economics Department, #177

Quercus

Announcements, tutorial problems, term paper materials, outlines of lectures, answers to in-class tests, and other course materials will be posted on Quercus.

Email

Email is *NOT* an appropriate forum for discussing course materials or asking questions about course content. As such, the use of email to instructors should be restricted to private matters, or to notify us of course problem (e.g. broken links, typos, etc.).

- For e-mails asking for a reply, if we can answer briefly (e.g., requiring a one-sentence reply), then we will reply within two business days. If a response requires more detail, then class, tutorial, or office hours are the more appropriate forum;
- All email should originate from a utoronto email address, and include "ECO340H1S" in the subject field.
- Always identify yourself in your email. The email must have your name and student number.
- We will never respond to emails that request information that can be found on Quercus or the syllabus.
- If you receive no reply to your e-mail, check announcements, review the syllabus, or please see us in office hours/class.

Student Assessment

Student grades are based on the following assessments:

Assessment	Date	Weight
Class Participation	Every Wednesday Lecture	10%
Term Paper Proposal	Wednesday, February 5th	10%
Term Paper	Friday, March 20th	40%
Final Exam	Final Exam Period	40%

Class Participation

The class participation grade is based entirely on the submission of short writing assignments during the Wednesday lecture time, each week during the course. These assignments, sometimes called "One Minute Papers," require students to provide short written answers to questions during class time. These "tests" will be given at some point during each Wednesday lecture. The in-class tests begin the first Wednesday class, January 8th, 2020. Further details:

- We will collect the "tests" in-class each week;
- The "tests" will be graded very coarsely: zero points will be awarded to students who do not hand in a "test" in class (no other way of submitting tests is accepted);
- The TEN best scores for a student will count, and will form the basis of the class participation grade. This means that a student can miss two in-class tests without penalty (at least in terms of the class participation grade);

- Medical notes will NOT be accepted for missed tests: The accommodation for missed tests is accounted for entirely by the requirement that only ten (out of 12) tests count. This also applies to students who miss the first lecture, and/or join the course after the first week.

Term Paper

Details of the Term Paper assignment will be provided later in the course. At this point, however, we can provide a sketch of the nature of the assignment, as well as the associated deadlines and ground rules.

- The project will entail an empirical analysis of a subject in labour economics, using a *Labour Force Survey* or census-based data set that we will provide. In other words, your paper will be based on a set of tables and/or figures that you create using these data.
- The Term Paper should be approximately 1,000 words in length, plus (i.e., not including) the associated tables/figures and references.
- In addition to your own empirical analysis, you will also have to relate and discuss your findings to the relevant literature in labour economics.
- Students will be allowed to work either on their own or in pairs – In other words, a group size of $n = 1$ or $n = 2$.

Plagiarism

Plagiarism is a potentially serious problem in writing assignments. There will be more details concerning the definition of plagiarism, advice on how to avoid it, and the associated penalties when we discuss the term paper in more detail. The term paper must be submitted for review through Turnitin (integrated with Quercus).

- Furthermore, students must also submit a signed Academic Integrity Checklist, or their term paper will not be graded, resulting in a grade of "zero."

All suspected cases of academic dishonesty will be investigated following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have questions or concerns about what constitutes appropriate academic behaviour or appropriate research and citation methods, you are expected to seek out additional information on academic integrity from your instructor or from other institutional resources. As a student, you alone are responsible for ensuring the integrity of your work and for understanding what constitutes an academic offence. Not knowing the University's expectations is not an excuse.

For further information, see Faculty of Arts & Science, Student Academic Integrity.

University disclaimer concerning Turnitin: "Normally, students will be required to submit their course essays to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the Universitys use of the Turnitin.com service are described on the Turnitin.com web site."

Extensions

Note that no extension will be granted due to illness, computer problems, or any other excuse, as ample time will have been provided to complete the project. If a student leaves the paper until the

last week (for example), and something happens, the student bears all risk of adverse productivity shocks.

Late Penalties

Term Papers are due by the beginning of class (10:00am sharp) on Friday March 20th. A late penalty of 10 percentage points per calendar day will be applied, starting with the 10:00am deadline on March 20th: Papers submitted between 0 and 24 hours late will receive a 10 percentage point penalty, between 24 and 48 hours a 20 percent penalty, and so on.

Appeal Procedure

If after receiving your graded term paper assignment you believe that there is an error in grading, the following procedure will apply:

- Your request must be in writing, with a detailed explanation. The explanation must go beyond "I think I deserve a higher grade." With direct reference to your paper and the grading rubric, you must explain why your score should be higher.
- Appeals must be submitted by email to me no later than two weeks after the grades are released. The specific deadline will be announced on the portal when the assignments are graded.
- The entire paper will be re-graded: Grades can go down.

Term Paper Proposal

To help students with their papers, students must submit a Term Paper Proposal by the beginning of class (4:00pm) Wednesday February 5th. Details will be provided later in the course. Late proposals will not be accepted under any conditions, and will receive a grade of zero.

Final Examination

The final exam will be held in the Faculty of Arts & Science final exam period, and covers the entire course. If you miss the final exam you are governed by the Faculty's rules for missing final examinations.

Problem Sets

The only way to learn labour economics is to *do* labour economics. It is therefore important to do practice problems. To help with this, we will assign regular problem sets. Solutions to the problems will not be made available, except in tutorials, nor will the problem sets be graded. The objective is to provide tangible "homework" (including practice with Stata) to help guide your own learning, especially in support of the Term Paper and Final Exam.

Planned Coverage

The following is an outline of the topics we expect to cover, the associated readings, and projected time. Note also that the lectures are readings are complementary – they are not substitutes. There is material covered in lectures that is not in the textbook, and vice versa. It should come as no surprise that the material covered in lectures is especially important.

1. Overview of the labour market, reviews of supply and demand, and regression analysis [One week]

   - BLGR, Chapter 1, "Introduction to Labour Market Economics," including Appendices 1A and 1B.

2. Wages across markets: Compensating Differentials [One week]

   - BLGR, Chapter 8, "Compensating Wage Differentials"

3. Human Capital [Two weeks]

   - BLGR, Chapter 9, "Human Capital Theory: Applications to Education and Training"
   - BLGR (Sixth Edition), pages 274-280 ("Addressing Ability Bias"), available through Quercus.

4. Immigration [Two weeks]

   - BLGR, Chapter 11,"The Economics of Immigration"

5. Labour Market Discrimination [Two weeks]

   - BLGR, Chapter 12, "Discrimination and Male-Female Earnings Differentials"

6. Unions [Two weeks]

   - BLGR, Chapter 14, "Unions and Collective Bargaining"
   - BGLR (Sixth Edition), pages 466-471 ("Solutions to the Bargaining Problem"), available through Quercus
   - BLGR, Chapter 15, "Union Impact on Wage and Non-Wage Outcomes."

7. Optimal Compensation Systems [Two weeks]

   - BLGR, Chapter 13, "Optimal Compensation Systems, Deferred Compensation, and Mandatory Retirement"
   - BLGR, Chapter 17, "Unemployment: Causes and Consequences," pages 516-519 only (on Efficiency Wages).

   Throughout the course, additional readings may be added, with links provided through Quercus.