

Chapter One

Introduction to Labour Market Economics



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Learning Objectives

- Main Players and their Roles
- Main Features: Labour Supply and Demand
- Neoclassical Model
- Policy Issues
- Characteristics of the Labour Market
- Alternative Perspectives of the Labour Market
- The Importance of the Regression Analysis

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Main Players and their Roles

- **Individuals' Decisions**
 - When to enter the labour force
 - How much education/training
 - Type/extent of job search
 - Occupation/industry
 - Labour hours/household work
 - Accept/quit/relocate
 - Wage rate
 - Union/association

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Main Players and their Roles

- **Firms' Decisions**
 - # of workers
 - Wages/benefits
 - Hours
 - Layoff/bankruptcy
 - Subcontract
 - Pension/retirement policy

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Main Players and their Roles

Factors Influencing the Firm's Decision

- **Global Competition:**
Free trade, Industrial restructuring, Deregulation, Privatization
- **Legislative Environment:**
Human Rights, Minimum wage, Overtime, Maternity leave, Worker's compensation, Occupational health/safety, Pensions/mandatory retirement, Labour laws/collective bargaining
- **Changing Workforce:**
Age, Gender, Ethnic diversity

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Main Players and their Roles

• Government's Decisions

- Individual rights vs. employer competitiveness
- Public support
- Training and education
- Insurance
- Compensation
- Pensions
- Vocational rehabilitation

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Labour Market Economics

Involves analyzing the determinants of the various dimensions of **labour supply** and **demand** and their interaction in alternative market structures to determine wages, employment, and unemployment.

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Labour Supply and Demand

Dimensions of Labour Supply

- **Quantity Dimensions:**
Population Growth, Labour Force Participation...
- **Quality Dimensions:**
Education, Health, Labour Productivity...
- **The Impact of Income Maintenance Programs:**
Welfare, Disability, Employment Insurance...

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Labour Supply and Demand

Dimensions of Labour Demand

- **Labour Costs and the Firm's Hiring Decisions:**
The impact of quasi-fixed costs and legislatively imposed costs...
- **Demand for the Firm's Output and the Firm's Competitiveness:**
Globalization, Industrial restructuring, Free trade, Technological advancements...

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Labour Supply and Demand

- **Labour Market Outcomes:**
Wages, Employment, Unemployment, Labour Shortages, and Wage Differentials...
- **Factors Influencing the Outcomes:**
Legislative Interventions, Unions and Collective Bargaining, the Market Structures (in both the product and the labour markets)...

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The Neoclassical Model of Labour Supply and Demand

Key Ingredients:

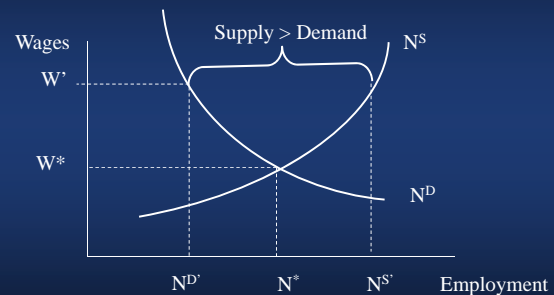
- **Behavioural Assumptions:**
Consumer/Buyer (Consumer Choice Theory)
Producer/Seller (Theory of the Firm)
- **Interaction between Buyers and Sellers:**
Wage and Employment in a Competitive Labour Market:
Market Clearing Outcome

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Wages and Employment in a Competitive Labour Market—A Neoclassical Model

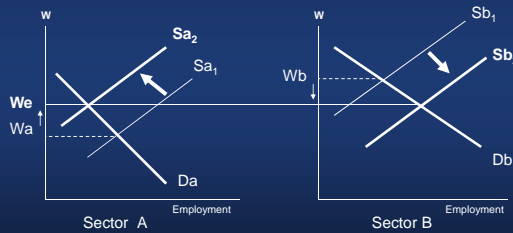


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The Neoclassical Model of Labour Supply and Demand—Two Sector Case



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Policy Issues

Labour market economics should be able to shed light on policy issues affecting:

- Labour Supply
- Labour Demand
- Wage Determination and Wage Structures
- Unemployment

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Policy Issues

- **Labour Supply:**
Work incentive effects of income maintenance and tax transfer programs such as employment insurance, welfare, subsidized day care...
- **Labour Demand:**
The labour demand effects of globalization and outsourcing, trade policies, collective bargaining, legislative policies with respect to minimum wages, human rights, workplace health and safety...

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Policy Issues

- **Wage Determination and Wage Structures:**
Wage polarization, non-wage benefits, male-female wage differentials, pay equity legislation, retirement, and pensions...
- **Unemployment:**
Changes in unemployment rate, job stability, impact of employment insurance on unemployment, youth unemployment...

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Characteristics of the Labour Market

The Labour market differs, mostly in degree and not in kind, in the following ways compared with the other markets:

1. The Stakeholders

Labour, Management, and Government – each may have different goals

2. Sociological

Family and Community Ties, Role of Women, and Social Norms – people are not like other goods and services

3. Institutional

Unions and Multinational Corporations – monopoly and monopsony power

Characteristics of the Labour Market

4. Legislative Constraint

Minimum Wage Laws, Safety and Health Regulations, Employment Insurance, Pensions, Immigration, etc.

5. Market Imperfections

Asymmetric Information, Uncertainty, and Risk

6. Complex Price (Wage Rate) Implications

Reflecting Returns to Investment in Education, Training and Mobility, Compensation for Risk and Undesirable Working Conditions, Union Power, Productivity, Standard of Living, Issues of Efficiency and Equity, etc.

Alternative Perspectives

1. Neoclassical

Emphasis on the theoretical foundation of the labour market and market clearing forces under assumptions such as perfect information and marginal analysis

2. Institutionalism

Argue that the assumptions of NC theory are incorrect. Emphasis on the descriptive realism and the roles of institutions, customs, and sociopolitical factors

3. Dualism

Based on segmented labour market tradition: primary and secondary

4. Radicalism

Emphasis on the class conflicts as the main determinant of the labour market outcomes

Summary

- Definition: Labour Market Economics
- Main Players and their Roles
 - Individuals, Firms, and Governments
- Dimensions of Labour Supply and Demand
 - Quantity and Quality Dimensions, Income Maintenance Effects, Labour Costs, Product Demands, and Firms' Competitiveness
- Labour Market Outcomes
 - Wages, Employment, and Wage Differentials

Summary

- **Factors Influencing the Outcomes**
Legislative Interventions, Unions, and the Market Structures
- **Alternative Models of the Labour Market**
- **Policy Issues**
Labour Supply, Labour Demand, Wage Determination, and Unemployment
- **Characteristics of the Labour Market**
Stakeholders, Sociological, Institutional, Legislative Constraint, Market Imperfections, and Complex Price (Wage Rate) Implications

Appendix

The Importance of the Regression Analysis and An Overview of Regression Analysis

End of Chapter One