

Contents



| | |
|-------------------------|------|
| <i>Reference Tables</i> | i |
| <i>Preface</i> | xx |
| <i>Acknowledgments</i> | xxiv |

1 Introduction 1

| | |
|--|----|
| The Labor Market | 1 |
| Labor Economics: Some Basic Concepts | 2 |
| Positive Economics | 3 |
| The Models and Predictions of Positive Economics | 4 |
| <i>EXAMPLE 1.1 Positive Economics: What Does It Mean to "Understand" Behavior?</i> | 5 |
| Normative Economics | 7 |
| <i>EXAMPLE 1.2 Do We Need "Nudges" to Make the Right Decisions for Ourselves?</i> | 9 |
| Normative Economics and Government Policy | 11 |
| Efficiency Versus Equity | 12 |
| Plan of the Text | 13 |
| Review Questions | 14 |
| Problems | 15 |
| Selected Readings | 16 |
| APPENDIX 1A | 17 |
| <i>Statistical Testing of Labor Market Hypotheses</i> | 17 |
| A Univariate Test | 17 |
| Multiple Regression Analysis | 20 |
| The Problem of Omitted Variables | 21 |
| Notes | 24 |

2 Overview of the Labor Market 26

| | |
|--|----|
| The Labor Market: Definitions, Facts, and Trends | 27 |
| The Labor Force and Unemployment | 28 |
| <i>EXAMPLE 2.1 The Unemployment Consequences of the Sudden COVID-19 Lockdown in March 2020</i> | 30 |
| Industries and Occupations: Adapting to Change | 31 |
| The Earnings of Labor | 32 |
| <i>EXAMPLE 2.2 Real Wages Across Countries and Time: Big Macs per Hour Worked</i> | 35 |
| How the Labor Market Works | 37 |
| The Demand for Labor | 38 |
| The Supply of Labor | 42 |
| The Determination of the Wage | 44 |

| | |
|--|-----------|
| <i>EXAMPLE 2.3 The Black Death and the Wages of Labor</i> | 47 |
| <i>EXAMPLE 2.4 Prosecuting Workers Who Leave Their Employers</i> | 49 |
| Applications of the Theory | 50 |
| Who Is Underpaid and Who Is Overpaid? | 50 |
| Unemployment and Responses to Technological Change Across Countries | 53 |
| <i>EMPIRICAL STUDY 2.1 PAY LEVELS AND THE SUPPLY OF MILITARY OFFICERS: OBTAINING SAMPLE VARIATION FROM CROSS-SECTION DATA</i> | 54 |
| Review Questions | 55 |
| Problems | 57 |
| Notes | 58 |
| Selected Readings | 61 |
| 3 The Demand for Labor | 62 |
| Profit Maximization | 62 |
| Marginal Income From an Additional Unit of Input | 64 |
| <i>EXAMPLE 3.1 The Marginal Revenue Product of College Football Stars</i> | 64 |
| Marginal Expense of an Added Input | 65 |
| The Short-Run Demand for Labor When Both Product and Labor Markets Are Competitive | 66 |
| A Critical Assumption: Declining MP_L | 66 |
| From Profit Maximization to Labor Demand | 67 |
| The Demand for Labor in Competitive Markets When Other Inputs Vary | 72 |
| Labor Demand in the Long Run | 72 |
| <i>EXAMPLE 3.2 Coal Mining Wages and Capital Substitution</i> | 74 |
| More Than Two Inputs | 75 |
| Labor Demand When the Product Market Is Not Competitive | 76 |
| Maximizing Monopoly Profits | 77 |
| Do Monopolies Pay Higher Wages? | 77 |
| Policy Application: The Labor Market Effects of Employer Payroll Taxes and Wage Subsidies | 78 |
| Who Bears the Burden of a Payroll Tax? | 78 |
| Employment Subsidies as a Device to Help Unemployed People | 81 |
| <i>EMPIRICAL STUDY 3.1 DO WOMEN PAY FOR EMPLOYER-FUNDED MATERNITY BENEFITS? USING CROSS-SECTION DATA OVER TIME TO ANALYZE "DIFFERENCES IN DIFFERENCES"</i> | 82 |
| Review Questions | 83 |
| Problems | 85 |
| Notes | 87 |
| Selected Readings | 88 |
| <i>APPENDIX 3A Graphical Derivation of a Firm's Labor Demand Curve</i> | 89 |
| The Production Function | 89 |
| Demand for Labor in the Short Run | 90 |
| Demand for Labor in the Long Run | 92 |
| Conditions for Cost Minimization | 92 |
| The Substitution Effect | 94 |
| The Scale Effect | 94 |
| Notes | 96 |

| | |
|---|------------|
| 4 Labor Demand Elasticities | 97 |
| The Own-Wage Elasticity of Demand | 97 |
| The Hicks–Marshall Laws of Derived Demand | 99 |
| Estimates of Own-Wage Labor Demand Elasticities | 102 |
| Applying the Laws of Derived Demand: Inferential Analysis | 104 |
| EXAMPLE 4.1 Why Are Union Wages So Different in Two Parts of the Trucking Industry? | 105 |
| The Cross-Wage Elasticity of Demand | 106 |
| Can the Laws of Derived Demand Be Applied to Cross-Elasticities? | 107 |
| Estimates Relating to Cross-Elasticities | 109 |
| Policy Application: Effects of Minimum-Wage Laws | 110 |
| History and Description | 110 |
| Employment Effects: Theoretical Analysis | 110 |
| Employment Effects: Empirical Estimates | 115 |
| EXAMPLE 4.2 The Employment Effects of the First U.S. Federal Minimum Wage | 115 |
| Does the Minimum Wage Fight Poverty? | 116 |
| “Living Wage” Laws | 117 |
| Applying Concepts of Labor Demand Elasticity to the Issue of Technological Change | 118 |
| EXAMPLE 4.3 Do Robots and Online Hiring Platforms Create or Destroy Jobs? | 120 |
| EMPIRICAL STUDY 4.1 ESTIMATING THE LABOR DEMAND CURVE: TIME SERIES DATA AND COPING WITH “SIMULTANEITY” | 124 |
| Review Questions | 126 |
| Problems | 128 |
| Notes | 130 |
| Selected Readings | 135 |
| 5 Frictions in the Labor Market | 136 |
| Frictions on the Employee Side of the Market | 137 |
| The Law of One Price | 137 |
| Monopsonistic Labor Markets: A Definition | 139 |
| Profit Maximization Under Monopsonistic Conditions | 140 |
| EXAMPLE 5.1 Monopsony Power in Labor Markets: The Case of Antitrust in the High-Tech Industry | 144 |
| How Do Monopsonistic Firms Respond to Shifts in the Supply Curve? | 145 |
| Monopsonistic Conditions and the Employment Response to Minimum-Wage Legislation | 148 |
| Job-Search Costs and Other Labor Market Outcomes | 149 |
| Monopsonistic Conditions and the Relevance of the Competitive Model | 151 |
| Frictions on the Employer Side of the Market | 152 |
| Categories of Quasi-fixed Costs | 152 |
| EXAMPLE 5.2 Does Employment-Protection Legislation Protect Workers? | 153 |
| The Employment/Hours Trade-Off | 156 |
| EXAMPLE 5.3 “Renting” Workers as a Way of Coping With Hiring Costs | 157 |
| Training Investments | 159 |
| The Training Decision of Employers | 159 |

| | |
|--|------------|
| The Types of Training | 160 |
| <i>EXAMPLE 5.4 General Training and Training Contracts</i> | 161 |
| Training and Post-Training Wage Increases | 162 |
| Employer Training Investments and Recessionary Layoffs | 164 |
| Hiring Investments | 165 |
| The Use of Credentials | 165 |
| Internal Labor Markets | 165 |
| How Can the Employer Recoup Its Hiring Investments? | 166 |
| <i>EMPIRICAL STUDY 5.1 WHAT EXPLAINS WAGE DIFFERENCES FOR WORKERS WHO APPEAR SIMILAR? USING PANEL DATA TO DEAL WITH UNOBSERVED HETEROGENEITY</i> | 167 |
| Review Questions | 168 |
| Problems | 170 |
| Notes | 173 |
| Selected Readings | 178 |
| 6 Supply of Labor to the Economy: The Decision to Work | 179 |
| Trends in Labor Force Participation and Hours of Work | 179 |
| Labor Force Participation Rates | 179 |
| Hours of Work | 182 |
| <i>EXAMPLE 6.1 Gig Work and the Choice of Working Hours</i> | 183 |
| A Theory of the Decision to Work | 184 |
| Some Basic Concepts | 184 |
| Analysis of the Labor/Leisure Choice | 188 |
| <i>EXAMPLE 6.2 The Labor Supply of New York City Taxi Drivers</i> | 188 |
| <i>EXAMPLE 6.3 Do Large Inheritances Induce Labor Force Withdrawal?</i> | 195 |
| Empirical Findings on the Income and Substitution Effects | 202 |
| <i>EXAMPLE 6.4 Daily Labor Supply at the Ballpark</i> | 202 |
| <i>EXAMPLE 6.5 Labor Supply Effects of Income Tax Cuts</i> | 204 |
| Policy Applications | 205 |
| Budget Constraints With "Spikes" | 205 |
| <i>EXAMPLE 6.6 Staying Around One's Kentucky Home: Workers' Compensation Benefits and the Return to Work</i> | 207 |
| Programs With Net Wage Rates of Zero | 208 |
| Subsidy Programs With Positive Net Wage Rates | 211 |
| <i>EXAMPLE 6.7 Wartime Food Requisitions and Agricultural Work Incentives</i> | 214 |
| <i>EMPIRICAL STUDY 6.1 ESTIMATING THE INCOME EFFECT AMONG LOTTERY WINNERS: THE SEARCH FOR "EXOGENEITY"</i> | 215 |
| Review Questions | 217 |
| Problems | 219 |
| Notes | 220 |
| Selected Readings | 226 |
| 7 Labor Supply Household Production, the Family, and the Life Cycle | 227 |
| A Labor Supply Model That Incorporates Household Production | 227 |
| The Basic Model for an Individual: Similarities With the Labor-Leisure Model | 228 |
| The Basic Model for an Individual: Some New Implications | 230 |

| | |
|---|------------|
| EXAMPLE 7.1 Obesity and the Household Production Model | 231 |
| Joint Labor Supply Decisions in the Household | 233 |
| Specialization of Function | 234 |
| Do Both Partners Work for Pay? | 235 |
| The Joint Decision and Interdependent Productivity at Home | 236 |
| Labor Supply in Recessions: The "Discouraged" Versus the "Added" Worker | 236 |
| EXAMPLE 7.2 Child Labor in Poor Countries | 238 |
| Life Cycle Aspects of Labor Supply | 240 |
| The Substitution Effect and When to Work Over a Lifetime | 240 |
| EXAMPLE 7.3 How Does Labor Supply Respond to Housing Subsidies? | 241 |
| The Choice of Retirement Age | 242 |
| EXAMPLE 7.4 Inducing Earlier Retirement in the 1930s | 246 |
| Policy Application: Childcare and Labor Supply | 247 |
| Childcare Subsidies | 247 |
| Child Support Assurance | 250 |
| EMPIRICAL STUDY 7.1 THE EFFECTS OF WAGE INCREASES ON LABOR SUPPLY (AND SLEEP): TIME-USE DIARY DATA AND SAMPLE SELECTION BIAS | 252 |
| Review Questions | 254 |
| Problems | 256 |
| Notes | 258 |
| Selected Readings | 263 |
| 8 Compensating Wage Differentials and Labor Markets | 264 |
| Job Matching: The Role of Worker Preferences and Information | 264 |
| Individual Choice and Its Outcomes | 265 |
| Assumptions and Predictions | 267 |
| Empirical Tests for Compensating Wage Differentials | 269 |
| EXAMPLE 8.1 Working on the Railroad: Making a Bad Job Good | 270 |
| Hedonic Wage Theory and the Risk of Injury | 271 |
| Employee Considerations | 271 |
| Employer Considerations | 273 |
| The Matching of Employers and Employees | 274 |
| EXAMPLE 8.2 Parenthood, Occupational Choice, and Risk | 276 |
| EXAMPLE 8.3 Indentured Servitude and Compensating Differentials | 278 |
| Normative Analysis: Occupational Safety and Health Regulation | 279 |
| Hedonic Wage Theory and Employee Benefits | 284 |
| Employee Preferences | 284 |
| Employer Preferences | 285 |
| The Joint Determination of Wages and Benefits | 287 |
| Policy EXAMPLE: Employer-Provided Healthcare Benefits | 289 |
| EMPIRICAL STUDY 8.1 HOW RISKY ARE ESTIMATES OF COMPENSATING WAGE DIFFERENTIALS FOR RISK? THE "ERRORS IN VARIABLES" PROBLEM | 290 |
| Review Questions | 292 |
| Problems | 293 |
| Notes | 295 |
| Selected Readings | 300 |

| | |
|---|------------|
| <i>APPENDIX 8A Compensating Wage Differentials and Layoffs</i> | 300 |
| Unconstrained Choice of Work Hours | 301 |
| Constrained Hours of Work | 302 |
| The Effects of Uncertain Layoffs | 302 |
| The Observed Wage–Layoff Relationship | 304 |
| Notes | 304 |
| 9 Investments in Human Capital Education and Training | 306 |
| <i>EXAMPLE 9.1 War and Human Capital</i> | 306 |
| Human Capital Investments: The Basic Model | 308 |
| The Concept of Present Value | 308 |
| Modeling the Human Capital Investment Decision | 310 |
| The Demand for a College Education | 311 |
| Weighing the Costs and Benefits of College | 311 |
| Predictions of the Theory | 313 |
| <i>EXAMPLE 9.2 Can Language Affect Investment Behavior?</i> | 315 |
| <i>EXAMPLE 9.3 Did the G.I. Bill Increase Educational Attainment for Returning World War II Veterans?</i> | 316 |
| <i>EXAMPLE 9.4 When Investments in Human Capital Are Less Risky Than Investments in Physical Assets</i> | 318 |
| Market Responses to Changes in College Attendance | 319 |
| Education, Earnings, and Post-Schooling Investments in Human Capital | 319 |
| Average Earnings and Educational Level | 320 |
| On-the-Job Training and the Concavity of Age–Earnings Profiles | 321 |
| The Fanning Out of Age–Earnings Profiles | 322 |
| Women and the Acquisition of Human Capital | 323 |
| Is Education a Good Investment? | 326 |
| Is Education a Good Investment for Individuals? | 326 |
| <i>EXAMPLE 9.5 Valuing a Human Asset: The Case of the Divorcing Doctor</i> | 327 |
| Is Education a Good Social Investment? | 329 |
| <i>EXAMPLE 9.6 The Socially Optimal Level of Educational Investment</i> | 334 |
| Is Public Sector Training a Good Social Investment? | 336 |
| <i>EMPIRICAL STUDY 9.1 ESTIMATING THE RETURNS TO EDUCATION BY USING A SAMPLE OF TWINS: COPING WITH THE PROBLEM OF UNOBSERVED DIFFERENCES IN ABILITY</i> | 337 |
| Review Questions | 339 |
| Problems | 340 |
| Notes | 341 |
| Selected Readings | 352 |
| <i>APPENDIX 9A A “Cobweb” Model of Labor Market Adjustment</i> | 353 |
| An Example of “Cobweb” Adjustments | 353 |
| Adaptive Expectations | 355 |
| Rational Expectations | 355 |
| Notes | 356 |
| 10 Worker Mobility: Migration, Immigration, and Turnover | 357 |
| The Determinants of Worker Mobility | 358 |
| Geographic Mobility | 359 |
| The Direction of Migratory Flows | 359 |

| | | |
|-----------|--|------------|
| | <i>EXAMPLE 10.1 The Great Migration: U.S. Southern Black People Move North</i> | 360 |
| | Personal Characteristics of Migrants | 360 |
| | The Role of Distance | 361 |
| | The Earnings Distribution in Sending Countries and International Migration | 362 |
| | <i>EXAMPLE 10.2 Migration and One's Time Horizon</i> | 362 |
| | The Returns to International and Domestic Migration | 363 |
| | Policy Application: Restricting Immigration | 366 |
| | U.S. Immigration History | 366 |
| | Naive Views of Immigration | 369 |
| | An Analysis of the Gainers and Losers | 371 |
| | Do the Overall Gains From Immigration Exceed the Losses? | 375 |
| | <i>EXAMPLE 10.3 Illegal Immigrants, Personal Discount Rates, and Crime</i> | 377 |
| | <i>EXAMPLE 10.4 Immigrants and Labor Mobility in the United States</i> | 379 |
| | Employee Turnover | 380 |
| | Age Effects | 380 |
| | Wage Effects | 380 |
| | Effects of Employer Size | 380 |
| | Cyclical Effects | 381 |
| | Employer Location | 381 |
| | Is More Mobility Better? | 382 |
| | <i>EMPIRICAL STUDY 10.1 DO POLITICAL REFUGEES INVEST MORE IN HUMAN CAPITAL THAN ECONOMIC IMMIGRANTS DO? THE USE OF SYNTHETIC COHORTS</i> | 383 |
| | Review Questions | 384 |
| | Problems | 386 |
| | Notes | 387 |
| | Selected Readings | 394 |
| 11 | Pay and Productivity Wage Determination Within the Firm | 395 |
| | <i>EXAMPLE 11.1 The Wide Range of Possible Productivities: The Case of the Factory that Could Not Cut Output</i> | 395 |
| | Motivating Workers: An Overview of the Fundamentals | 396 |
| | The Employment Contract | 397 |
| | Coping With Information Asymmetries | 397 |
| | Motivating Workers | 400 |
| | <i>EXAMPLE 11.2 Calorie Consumption and Type of Pay</i> | 401 |
| | Motivating the Individual in a Group | 402 |
| | <i>EXAMPLE 11.3 The Effects of Low Relative Pay on Worker Satisfaction</i> | 402 |
| | Compensation Plans: Overview and Guide to the Rest of the Chapter | 404 |
| | Productivity and the Basis of Yearly Pay | 404 |
| | Employee Preferences | 404 |
| | Employer Considerations | 406 |
| | <i>EXAMPLE 11.4 Poor Group Incentives Doom the Shakers</i> | 407 |
| | Productivity and the Level of Pay | 411 |
| | Why Higher Pay Might Increase Worker Productivity | 411 |
| | Efficiency Wages | 412 |

| | |
|---|------------|
| EXAMPLE 11.5 Did Henry Ford Pay Efficiency Wages? | 412 |
| Productivity and the Sequencing of Pay | 413 |
| Underpayment Followed by Overpayment | 414 |
| Promotion Tournaments | 417 |
| EXAMPLE 11.6 The "Rat Race" in Law Firms | 418 |
| Career Concerns and Productivity | 420 |
| Applications of the Theory: Explaining Two Puzzles | 421 |
| Why Do Earnings Increase With Job Tenure? | 421 |
| Why Do Large Firms Pay More? | 423 |
| EMPIRICAL STUDY 11.1 ARE WORKERS WILLING TO PAY FOR FAIRNESS? USING LABORATORY EXPERIMENTS TO STUDY ECONOMIC BEHAVIOR | 424 |
| Review Questions | 426 |
| Problems | 427 |
| Notes | 428 |
| Selected Readings | 438 |
| 12 Gender, Race, and Ethnicity in the Labor Market | 439 |
| Measured and Unmeasured Sources of Earnings Differences | 440 |
| Earnings Differences by Gender | 441 |
| EXAMPLE 12.1 Bias in the Selection of Musicians by Symphony Orchestras | 443 |
| EXAMPLE 12.2 Does Gig Work Eliminate the Gender Pay Gap? | 450 |
| Earnings Differences Between Black Americans and White Americans | 450 |
| EXAMPLE 12.3 Race Discrimination Might "Strike" When Few Are Looking: The Case of Umpires in Major League Baseball | 454 |
| Earnings Differences by Ethnicity | 455 |
| Theories of Market Discrimination | 457 |
| Personal-Prejudice Models: Employer Discrimination | 457 |
| Personal-Prejudice Models: Customer Discrimination | 463 |
| Personal-Prejudice Models: Employee Discrimination | 463 |
| EXAMPLE 12.4 Fear and Lathing in the Michigan Furniture Industry | 464 |
| Statistical Discrimination | 465 |
| EXAMPLE 12.5 "Ban the Box" and Statistical Discrimination | 466 |
| Noncompetitive Models of Discrimination | 467 |
| A Final Word on the Theories of Discrimination | 471 |
| Federal Programs to End Discrimination | 471 |
| Equal Pay Act of 1963 | 472 |
| Title VII of the Civil Rights Act | 472 |
| EXAMPLE 12.6 Comparable Worth and the University | 474 |
| The Federal Contract Compliance Program | 476 |
| Effectiveness of Federal Antidiscrimination Programs | 477 |
| EMPIRICAL STUDY 12.1 CAN WE CATCH DISCRIMINATORS IN THE ACT? THE USE OF FIELD EXPERIMENTS IN IDENTIFYING LABOR MARKET DISCRIMINATION | 478 |
| Review Questions | 480 |
| Problems | 482 |
| Notes | 484 |
| Selected Readings | 495 |

| | |
|---|------------|
| <i>APPENDIX 12A Estimating Comparable-Worth Earnings Gaps: An Application of Regression Analysis</i> | 497 |
| <i>APPENDIX 12B Estimating the Gender Pay Gap in a Large International Company</i> | 500 |
| Notes | 500 |
| 13 Unions and the Labor Market | 502 |
| Union Structure and Membership | 502 |
| International Comparisons of Unionism | 503 |
| The Legal Structure of Unions in the United States | 505 |
| Constraints on the Achievement of Union Objectives | 508 |
| <i>EXAMPLE 13.1 A Downward-Sloping Demand Curve for Football Players</i> | 509 |
| The Monopoly-Union Model | 510 |
| The Efficient-Contracts Model | 512 |
| The Activities and Tools of Collective Bargaining | 516 |
| Union Membership: An Analysis of Demand and Supply | 516 |
| <i>EXAMPLE 13.2 The Effects of Deregulation on Trucking and Airlines</i> | 519 |
| Union Actions to Alter the Labor Demand Curve | 521 |
| Bargaining and the Threat of Strikes | 522 |
| <i>EXAMPLE 13.3 Permanent Replacement of Strikers</i> | 525 |
| Bargaining in the Public Sector: The Threat of Arbitration | 527 |
| The Effects of Unions | 530 |
| The Theory of Union Wage Effects | 530 |
| Evidence of Union Wage Effects | 533 |
| Evidence of Union Total Compensation Effects | 535 |
| The Effects of Unions on Employment | 535 |
| The Effects of Unions on Productivity and Profits | 536 |
| Normative Analyses of Unions | 537 |
| <i>EMPIRICAL STUDY 13.1 WHAT IS THE GAP BETWEEN UNION PAY AND NONUNION PAY? THE IMPORTANCE OF REPLICATION IN PRODUCING CREDIBLE ESTIMATES</i> | 539 |
| Review Questions | 541 |
| Problems | 542 |
| Notes | 544 |
| Selected Readings | 554 |
| <i>APPENDIX 13A Arbitration and the Bargaining Contract Zone</i> | 555 |
| Notes | 558 |
| 14 Unemployment | 559 |
| A Stock-Flow Model of the Labor Market | 561 |
| Duration of Unemployment | 562 |
| Paths to Unemployment | 562 |
| Rates of Flow Affect Unemployment Levels | 563 |
| Frictional Unemployment | 566 |
| The Theory of Job Search | 567 |
| <i>EXAMPLE 14.1 How Discerning Should Unemployed People Be in the Search for Work?</i> | 569 |
| Effects of Unemployment Insurance Benefits | 571 |
| Structural Unemployment | 573 |

| | |
|---|-----|
| Occupational and Regional Unemployment Rate Differences | 574 |
| <i>EXAMPLE 14.2 Structural Unemployment as a Threat to Social Well-Being</i> | 575 |
| International Differences in Long-Term Unemployment | 576 |
| Whether Efficiency Wages Cause Structural Unemployment | 577 |
| Demand-Deficient (Cyclical) Unemployment | 579 |
| Downward Wage Rigidity | 580 |
| <i>EXAMPLE 14.3 Nominal Wage Cuts for Construction Workers in the Great Recession</i> | 581 |
| <i>EXAMPLE 14.4 Recessions and Worker Effort</i> | 584 |
| Financing U.S. Unemployment Compensation | 584 |
| Seasonal Unemployment | 586 |
| <i>EXAMPLE 14.5 Unemployment Insurance and Seasonal Unemployment: A Historical Perspective</i> | 587 |
| When Do We Have Full Employment? | 588 |
| Defining the Natural Rate of Unemployment | 588 |
| Unemployment and Demographic Characteristics | 589 |
| What Is the Natural Rate? | 590 |
| <i>EMPIRICAL STUDY 14.1 DO RE-EMPLOYMENT BONUSES REDUCE UNEMPLOYMENT? THE RESULTS OF SOCIAL EXPERIMENTS</i> | 590 |
| Review Questions | 592 |
| Problems | 593 |
| Notes | 595 |
| Selected Readings | 605 |

15 Inequality in Earnings 607

| | |
|--|-----|
| Measuring Inequality | 607 |
| Earnings Inequality Since 1980: Some Descriptive Data | 610 |
| <i>EXAMPLE 15.1 Differences in Earnings Inequality Across Developed Countries</i> | 614 |
| The Increased Returns of Higher Education | 615 |
| <i>EXAMPLE 15.2 Changes in the Premium to Education at the Beginning of the Twentieth Century</i> | 616 |
| Growth of Earnings Dispersion in Human-Capital Groups | 617 |
| The Underlying Causes of Growing Inequality | 618 |
| Changes in Supply | 618 |
| Changes in Demand: Technological Change | 620 |
| <i>EXAMPLE 15.3 Will Machine Learning Increase Earnings Inequality?</i> | 621 |
| <i>EXAMPLE 15.4 Are Early Childhood Programs a Vehicle for Reducing Earnings Inequality?</i> | 623 |
| Changes in Institutional Forces | 626 |
| Is Inequality Inherited? | 627 |
| <i>EMPIRICAL STUDY 15.1 DO PARENTS' EARNINGS DETERMINE THE EARNINGS OF THEIR CHILDREN? THE USE OF INTERGENERATIONAL DATA IN STUDYING ECONOMIC MOBILITY</i> | 628 |
| Review Questions | 630 |
| Problems | 631 |
| Notes | 633 |
| Selected Readings | 638 |

| | |
|--|------------|
| <i>APPENDIX 15A Lorenz Curves and Gini Coefficients</i> | 639 |
| Notes | 642 |
| 16 The Labor Market Effects of International Trade and Production Sharing | 643 |
| Why Does Trade Take Place? | 644 |
| Trade Between Individuals and the Principle of Comparative Advantage | 644 |
| The Incentives for Trade Across Different Countries | 646 |
| <i>EXAMPLE 16.1 The Growth Effects of the Openness to Trade: Japan's Sudden Move to Openness in 1859</i> | 650 |
| Effects of Trade on the Demand for Labor | 651 |
| Product Demand Shifts | 651 |
| Shifts in the Supply of Alternative Factors of Production | 653 |
| The Net Effect on Labor Demand | 655 |
| <i>EXAMPLE 16.2 Could a Quarter of U.S. Jobs Be Offshored? Might Your Future Job Be Among Them?</i> | 656 |
| Will Wages Converge Across Countries? | 659 |
| Policy Issues | 660 |
| Subsidizing Human-Capital Investments | 661 |
| Income Support Programs | 662 |
| Subsidized Employment | 663 |
| How Narrowly Should We Target Compensation? | 663 |
| <i>EMPIRICAL STUDY 16.1 EVALUATING EUROPEAN ACTIVE LABOR MARKET POLICIES: THE USE OF META-ANALYSIS</i> | 665 |
| Summary | 667 |
| Review Questions | 667 |
| Problems | 668 |
| Notes | 669 |
| Selected Readings | 673 |
| | |
| <i>Answers to Odd-Numbered Review Questions and Problems</i> | 675 |
| <i>Index</i> | 725 |