Purpose: The aim of this subject is to provide students with an understanding of economic analysis applied to labour market issues. The subject covers a broad range of theoretical models and empirical studies. The first part of the course begins with a review of basic labour supply theory and human capital. This is followed by a study of various forms of employment contracts in environments with imperfect information. The second half deals with topics in the theory of labour demand, earnings inequality and the effects of ageing on labour markets. Issues related to unemployment and efficiency of labour markets will be discussed throughout the course.

Possible Instructors: Denise Doiron, Lisa Magnani

Workload Expectations: It is expected that you will spend at least ten hours per week studying this course. This time should be made up of reading, research, working on exercises and problems and attending classes. In periods where you need to complete assignments or prepare for examinations the workload may be greater.

Text: There is no required textbook for this subject. Reference to the following undergraduate textbooks may be useful in providing basic theories used to analyse labour markets. Copies of these books will be held in the Library's Open Reserve.


You may be required to read and evaluate empirical research. The level of knowledge in econometrics required for this would be equivalent to the material in a textbook such as:


Assessment: There are three components to the assessment for the subject:

20 marks: Seminar/Tutorial participation and assignments.

20 marks: Essay Assignment

60 marks: Final Examination

Tutorials: The purpose of the weekly tutorials is to provide an opportunity for students to raise questions and discuss issues relating to the lecture material from the previous week. In addition, a series of review questions and readings will be set for discussion each week. Students will be expected to work through the questions and participate in the discussions.
**Essay:** There are two options for the course essay.

i. **Option A:**

**Length:** Maximum length of 3500 words.

**Topic:** A US Department of Labor report published, aptly, on Labor Day 1999, summed up the conventional wisdom regarding the future of this all-pervasive pastime we call "work". Pessimists see massive unemployment and growing income inequality. The unavoidable result, they say, of revolutionary technological change, globalization and economic, social and demographic trends. Optimists, on the other hand, predict shared opportunities for growth, creativity and freedom in the "post job" organization.

Focusing on the changing nature of employment arrangements, technological change and the world population ageing, explain what it is for you the future of work. Evaluate the challenges and threats that flexible labour market arrangements pose compared with traditional, year-round, full-time jobs.

Suggested References:


ii. **Option B:**

**Length:** Maximum length of 3500 words.

**Topic:** CEO remuneration has received a lot of attention recently following reports of huge compensation packages paid out despite poor firm performance. Using the basic principal-agent model, describe the incentive problem in executive compensation. Describe the trends, issues, and problems which have surfaced recently in this area of research. Discuss whether the same issues are present in the Australian context.

Suggested References:


Lecture Outline

I. Labour Supply and Human Capital

II. Risk Sharing Contracts

III. Moral Hazard and Incentive Contracts.

IV. Adverse Selection and Signalling Contracts.
V. Labour Demand: Short Run vs. Long Run, Static vs. Dynamic models with Adjustment Costs.


VI. Labour Market Effects of Adjustment Costs.


VII. The evolution of the wage structure: the increasing earnings inequality in Australia and the US, its explanations and its effects.


VIII. Technological change: effects on earnings, inequality and returns to education.


IX. Labour market flexibility and alternative employment arrangements: adjustment costs, market uncertainty and the boundaries of the firm.


X. Issues of International Migration.


XI. Ageing Populations and the Labour Markets


XII. Review