

The Peter F. Drucker and Masatoshi Ito Graduate School of Management
Claremont Graduate University

MGT 369 – Labor and Personnel Economics for Managers
Syllabus
Spring 2009
Thursdays 1:00 – 3:30 pm

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Learning Objectives:

This course is designed to:

- (1) provide familiarity with the economic foundations of labor markets and human resource management,
- (2) enhance managerial effectiveness by increased understanding of what motivates workers to exert effort, how market conditions influence wages, and the strategies associated with worker selection, task assignment, and compensation, and
- (3) expose students to theoretical models and empirical evidence on topics that will allow for improved employment-related decisions.

Major decisions that involve the firm's workforce are usually determined by cooperation between general managers and human resource specialists. Thus, it is important for the general manager to understand labor markets and the strategic aspects of personnel management.

The course begins with an exposition of general labor market behavior from the perspective of both individuals and firms. Subsequently, critical managerial decisions associated with employee recruitment, training, incentives, and compensation are covered. The importance of history, institutions, and public policy in understanding labor market behavior and outcomes is emphasized throughout the course. In addition, the course exposes students to empirical techniques most commonly used in applied areas of labor economics, personnel management, and labor market policy.

Prerequisites:

MGT 306 (or 513) – Quantitative Methods for Management
MGT 383 – Economics of Strategy

Grading:

Homework	30%
Presentation	30%
Final Exam	40%

Text and Readings:

Kaufman, Bruce E. and Julie L. Hotchkiss. *The Economics of Labor Markets*, 7th edition. Thomson South-Western College Publishers, 2006.

All other required and supplemental readings will be posted on Sakai or distributed in class.

Homework:

Several homework assignments will be assigned during the course. Due dates will be given in class. Students will receive a grade of plus (100%), check (85%), minus (70%), or no credit on the homework assignments. This will reflect completeness, effort, and correctness. Full credit will not be given unless the work and/or explanation leading up to a final answer is provided. No late homework assignments will be accepted and there will be no make-up assignments. Solutions to all homework questions will be available approximately one week after the due date. The formation of study groups is encouraged, but all final answers must be the students' own work. No credit will be given for homework assignments that fail to adhere to this requirement.

Final Exam:

The final exam is intended to test the student's understanding of the course material and the ability to apply the knowledge that has been acquired. No make-up exams will be given in this course. The final exam is scheduled on **Thursday, May 14 at 1:00 PM**. The final exam will be comprehensive.

Presentation:

The presentation will require students to read an article from the *supplemental reading* list and provide a 15-20 minute overview and critique of the article (articles not contained in the list may be chosen with instructor approval). All presentations must use PowerPoint. The grading, in order of importance, will be based on three elements: (1) the content of the presentation (i.e., be sure to address the major issues and/or hypothesis of the article and how it relates to the material covered in class), (2) the quality of the

presentation (i.e., be prepared to speak freely; do not read off the slides or a piece of paper directly), and (3) the appearance of the PowerPoint slides.

Course Outline:

I. Introduction

A. Fundamental Concepts

Topics: general principles of labor and personnel economics, interactions between workers and firms, the role of policy

Required Reading:

Kaufman and Hotchkiss. **Chapter 1 (pp. 1-26)**

B. The Methodology and Significance of Labor and Personnel Management

Topics: the uniqueness of labor markets, methodological debates, institutional forces

Required Reading:

(1) Kaufman and Hotchkiss. **Chapter 1 (pp. 26-43)**

(2) Carter and Cullenberg. "Labor Economics and the Historian," in *Economics and the Historian* (eds. Thomas Rawski, et. al.), 1996

C. Quantitative Methods (Review)

Topics: regression analysis, interpretation of tables and results

Supplemental Reading:

(1) Anderson, Sweeney, and Williams. *Statistics for Business and Economics*

(2) Wooldridge. *Introductory Econometrics*

II. Labor Supply

A. Time Allocation and the Decision to Work

Topics: labor force statistics, individual decisions to work and how much to work

Required Reading:

Kaufman and Hotchkiss. **Chapters 2 and 3**

Supplemental Reading:

(1) Imbens, Rubin, and Sacerdote. "Estimating the Effect of Unearned Income on Labor Earnings, Savings, and Consumption: Evidence from a Survey of Lottery Players," *American Economic Review*, 91(4), 2001, 778-794

(2) Blank. "Evaluating Welfare Reform in the United States," *Journal of Economic Literature*, 40(4), 2002, 1105-1166

B. The Theory of Human Capital

Topics: demand for education, on-the-job training, measuring returns to skill investments

Required Reading:

Kaufman and Hotchkiss. **Chapter 7**

Supplemental Reading:

(1) Lazear. Chapter 6

(2) Daymont and Andrisani. "Job Preferences, College Major and the Gender Gap in Earnings," *Journal of Human Resources*, 14(3), 1984, 408-428

(3) Dynarski. "Does Aid Matter? Measuring the Effect of Student Aid on College Attendance and Completion," *American Economic Review*, 93(1), 2003, 279-288

(4) Lynch and Black. "Beyond the Incidence of Employer-Provided Training," *Industrial and Labor Relations Review*, 52(1), 1998, 64-81

(5) Barron, Berger, and Black. "Do Workers Pay for On-the-Job Training?" *Journal of Human Resources*, 34(2), 1999, 235-252

III. Labor Demand

Topics: valuing worker contributions to production, optimal hiring decisions, effects of market conditions on worker hiring and profits

A. Short-Run Analysis

Required Reading:

Kaufman and Hotchkiss. **Chapter 4**

B. Long-Run Analysis

Required Reading:

Kaufman and Hotchkiss. **Chapter 5**

Supplemental Reading:

(1) Weinberg. "Computer Use and the Demand for Female Workers," *Industrial and Labor Relations Review*, 53(2), 2000, 290-308

(2) Friedberg. "The Impact of Technological Change on Older Workers: Evidence from Data on Computer Use," *Industrial and Labor Relations Review*, 56(3), 2003, 511-529

IV. The Wage Structure and Institutions

A. Equilibrium in Competitive and Non-Competitive Labor Markets

Topics: impact of output and input market structure on worker hiring decisions, labor market adjustments to shocks

Required Reading:

Kaufman and Hotchkiss. **Chapter 6 (pp. 260-281)**

Supplemental Reading:

- (1) Reder. "An Analysis of a Small, Closely Observed Labor Market: Starting Salaries for University of Chicago MBAs," *Journal of Business*, 51(2), 1978, 262-297
- (2) Young and Kaufman. "Interfirm Wage Differentials in a Local Labor Market: The Case of the Fast-Food Industry," *Journal of Labor Research*, 18(3), 1997, 463-480

B. Internal Labor Markets and Efficiency Wages

Topics: the nature of long-term worker-firm relationships, optimal wage-setting over time

Required Reading:

Kaufman and Hotchkiss. **Chapter 6 (pp. 295-299)**

Supplemental Reading:

- (1) Lazear. Chapters 16 and 17
- (2) Akerlof and Yellen. *Efficiency Wage Models of the Labor Market*, 1986
- (3) Osterman. "Internal Labor Markets in a Changing Environment: Models and Evidence," in *Research Frontiers in Industrial Relations and Human Resources* (eds. David Lewin, Olivia Mitchell, and Peter Sherer), 1992
- (4) Fairris. "Internal Labor Markets and Worker Quits," *Industrial Relations*, 43(3), 2004, 573-594

C. Compensating Wage Differentials

Topics: worker evaluation and firm compensation for qualitative job characteristics, worker-firm matching and the role of information, the role of public policy in regulating safety and job risks

Required Reading:

Kaufman and Hotchkiss. **Chapter 8**

Supplemental Reading:

- (1) Lazear. Chapters 14 and 15
- (2) French and Dunlap. "Compensating Wage Differentials for Job Stress," *Applied Economics*, 30(8), 1998, 1067-1075
- (3) Hersch. "Compensating Differentials for Gender-Specific Job Injury Risks," *American Economic Review*, 88(3), 1998, 598-607
- (4) Bender and Elliot. "The Role of Job Attributes in Understanding the Public-Private Wage Differential," *Industrial Relations*, 41(3), 2002, 407-421
- (5) Olson. "Do Workers Accept Lower Wages in Exchange for Health Benefits?" *Journal of Labor Economics*, 20(2), 2002, S91-S114

D. Segmented Labor Markets

Topics: non-competing labor market groups, occupational mobility, characteristics of "primary" and "secondary" sector jobs

Required Reading:

Kaufman and Hotchkiss. **Chapter 6 (pp. 300-305)**

Supplemental Reading:

(1) Leontaridi. "Segmented Labor Markets: Theory and Evidence," *Journal of Economic Surveys*, 12(1), 1998, 63-101

(2) Kleiner. "Occupational Licensing," *Journal of Economic Perspectives*, 14(4), 2000, 189-202

E. Unions – History, Theory, Effects

Topics: the rise and fall of union membership, union goals and behavior, measuring the impact of union membership on wages and profits

Required Reading:

Kaufman and Hotchkiss. **Chapters 11 and 12**

Supplemental Reading:

(1) Addison and Hirsch. *The Economic Analysis of Unions: New Approaches and Evidence*, 1986

(2) Belman and Voos. "Changes in Union Wage Effects by Industry: A Fresh Look at the Evidence," *Industrial Relations*, 43(3), 2004, 491-519

V. Personnel Management

A. Uncertainty, Asymmetric Information, and Strategic Behavior

Topics: the role of incomplete information and risk in optimal hiring decisions, the cost and benefits of human resource management systems

Required Reading:

Kaufman and Hotchkiss. **Chapter 10 (pp. 505-518)**

Supplemental Reading:

(1) Lazear. Chapter 2

(2) Wright and McMahon. "Theoretical Perspectives for Strategic Human Resource Management," *Journal of Management*, 18(2), 1992, 295-320

(3) Kaufman. "The Theory and Practice of Strategic HRM and Participative Management: Antecedents in Early Industrial Relations," *Human Resource Management Review*, 11(4), 2001, 505-533

(4) Gunderson. "Economics of Personnel and Human Resource Management," *Human Resource Management Review*, 11(4), 2001, 431-452

(5) Bollinger and Hotchkiss. "The Upside Potential of Hiring Risky Workers: Evidence from the Baseball Industry," *Journal of Labor Economics*, 21(4), 2003, 923-944

B. Employee Screening and Selection

Topics: issues and processes of employee selection, the use of "signals" in hiring

Required Reading:

Kaufman and Hotchkiss. **Chapter 10 (pp. 518-525)**

Supplemental Reading:

(1) Lazear. Chapters 3 and 4

- (2) Hunter and Schmidt. "Ability Tests: Economic Benefits versus the Issue of Fairness," *Industrial Relations*, 21(3), 1982, 293-308
- (3) Mueser and Maloney. "Ability, Human Capital and Employer Screening: Reconciling Labor Market Behavior with Studies of Employee Productivity," *Southern Economic Journal*, 57(3), 1991, 676-689

C. Compensation and Productivity

Topics: analysis of wage levels and alternative forms of pay (e.g., salary, hourly wage, piece rates, etc.)

Required Reading:

Kaufman and Hotchkiss. **Chapter 10 (pp. 525-534)**

Supplemental Reading:

- (1) Lazear. Chapters 5 and 7-11
- (2) Kerr. "On the Folly of Rewarding A, While Hoping for B," *Academy of Management Journal*, 18(4), 1975, 769-783
- (3) Mitchell, Lewin, and Lawler. "Alternative Pay Systems, Firm Performance, and Productivity," in *Paying for Productivity: A Look at the Evidence* (ed. Blinder), 1990
- (4) Abowd and Kaplan. "Executive Compensation: Six Questions that Need Answering," *Journal of Economic Perspectives*, 13(4), 1999, 145-168
- (5) Bertrand and Mullainathan. "Agents with and without Principals," *American Economic Review*, 90(2), 2000, 203-208
- (6) Carmichael and MacLeod. "Worker Cooperation and the Ratchet Effect," *Journal of Labor Economics*, 18(1), 2000, 1-19
- (7) Gneezy and Rustichini. "Pay Enough or Don't Pat at All," *Quarterly Journal of Economics*, 115(3), 2000, 791-810
- (8) Jacob and Levitt. "Rotten Apples: An Investigation of the Prevalence and Predictors of Teacher Cheating," *Quarterly Journal of Economics*, 118(3), 2003, 843-877
- (9) Barkume. "Using Incentive Pay and Providing Pay Supplements in U.S. Job Markets," *Industrial Relations*, 43(3), 2004, 618-633
- (10) Bebchuk and Grinstein. "The Growth of Executive Pay," *NBER Working Paper*, No. 11443.
- (11) Jenter and Kanaan. "CEO Turnover and Relative Performance Evaluation," *NBER Working Paper*, No. 12068.

D. Employee Participation and Performance

Topics: the "art" and "science" of organizing production and managing employee tasks, costs and benefits of providing opportunities for employee involvement

Required Reading:

Kaufman and Hotchkiss. **Chapter 10 (pp. 534-542)**

Supplemental Reading:

- (1) Lazear. Chapters 12 and 18

- (2) Levine and Tyson. "Participation, Productivity, and the Firm's Environment," in *Paying for Productivity: A Look at the Evidence* (ed. Blinder), 1990
- (3) Huselid. "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," *Academy of Management Journal*, 38(3), 1995, 635-672
- (4) Nalbantian and Schotter. "Productivity under Group Incentives: An Experimental Study," *American Economic Review*, 87(3), 1997, 314-341
- (5) Cappelli and Rogovsky. "Employee Involvement and Organizational Citizenship: Implications for Labor Law and Lean Production," *Industrial and Labor Relations Review*, 51(4), 1998, 633-653
- (6) Osterman. "Work Reorganization in an Era of Restructuring: Trends in Diffusion and Effects on Employee Welfare," *Industrial and Labor Relations Review*, 53(2), 2000, 179-196
- (7) Rubinstein. "The Impact of Co-Management on Quality Performance: The Case of the Saturn Corporation," *Industrial and Labor Relations Review*, 53(2), 2000, 197-218
- (8) Knez and Simester. "Firm-Wide Incentives and Mutual Monitoring at Continental Airlines," *Journal of Labor Economics*, 19(4), 2001, 743-772
- (9) Cappelli and Neumark. "Do 'High-Performance' Work Practices Improve Establishment-Level Outcomes?" *Industrial and Labor Relations Review*, 54(4), 2001, 737-775
- (10) Hamilton, Nickerson, and Owan. "Team Incentives and Worker Heterogeneity: An Empirical Analysis of the Impact of Teams on Productivity and Participation," *Journal of Political Economy*, 111(3), 2003, 465-497
- (11) Bartel. "Human Resource Management and Organizational Performance: Evidence from Retail Banking," *Industrial and Labor Relations Review*, 57(2), 2004, 181-203
- (12) Arthur and Cook. "Taking Stock of Work-Family Initiatives: How Announcements of 'Family-Friendly' Human Resource Decisions Affect Shareholder Value," *Industrial and Labor Relations Review*, 57(4), 2004, 599-613

VI. Issues in Labor Management

A. Discrimination

Topics: theories of labor market discrimination, empirical evidence of wage and employment discrimination, the role of public policy

Required Reading:

Kaufman and Hotchkiss. **Chapter 9**

Supplemental Reading:

- (1) Darity Jr. and Mason. "Evidence of Discrimination in Employment: Codes of Color, Codes of Gender," *Journal of Economic Perspectives*, 12(2), 1998, 63-90

- (2) Gibelman. "The Non-Profit Sector and Gender Discrimination: A Preliminary Investigation into the Glass Ceiling," *Nonprofit Management and Leadership*, 10(3), 2000, 251-269
- (3) Holzer and Neumark. "What Does Affirmative Action Do?" *Industrial and Labor Relations Review*, 53(2), 2000, 240-271
- (4) Szymanski. "A Market Test for Discrimination in the English Professional Soccer Leagues," *Journal of Political Economy*, 108(3), 2000, 590-603
- (5) Bertrand and Hallock. "The Gender Gap in Top Corporate Jobs," *Industrial and Labor Relations Review*, 55(1), 2001, 3-21
- (6) Elvira and Zatzick. "Who's Displaced First? The Role of Race in Layoff Decisions." *Industrial Relations*, 41(2), 2002, 329-361
- (7) Adams. "Passed Over for Promotion Because of Age: An Empirical Analysis of the Consequences," *Journal of Labor Research*, 23(3), 2002, 447-461
- (8) Neumark. "Age Discrimination Legislation in the United States," *Contemporary Economic Policy*, 21(3), 2003, 297-317
- (9) Burdekin, Hossfeld, and Smith. "Are NBA Fans Becoming Indifferent to Race?," *Journal of Sports Economics*, 6(2), 2005, 144-159
- (10) Wolfers. "Diagnosing Discrimination: Stock Returns and CEO Gender," *NBER Working Paper*, No. 11989.

B. The Minimum/Living Wage Debate

Topics: history and purpose of minimum/living wages, labor market adjustments to minimum/living wages, empirical evidence of minimum/living wage effects

Required Reading:

Kaufman and Hotchkiss. **Chapter 6 (pp. 281-295)**

Supplemental Reading:

- (1) Card and Krueger. *Myth and Measurement: The New Economics of the Minimum Wage*, 1995
- (2) Simon and Kaestner. "Do Minimum Wages Affect Non-Wage Job Attributes? Evidence on Fringe Benefits," *Industrial and Labor Relations Review*, 58(1), 2004, 52-70
- (3) Fairris and Pedace. "The Impact of Minimum Wages on Job Training: An Empirical Exploration with Establishment Data," *Southern Economic Journal*, 70(3), 2004, 566-583
- (4) Brenner. "The Economic Impact of the Boston Living Wage Ordinance," *Industrial Relations*, 44(1), 2005, 59-83
- (5) Fairris. "The Impact of Living Wages on Employers: A Control Group Analysis of the Los Angeles Ordinance," *Industrial Relations*, 44(1), 2005, 84-105
- (6) Adams and Neumark. "When do Living Wages Bite?" *Industrial Relations*, 44(1), 2005, 164-192

C. Migration and Demographic Change

Topics: history of immigration flows and policy, migration theories and evidence, labor market impacts of migration

Supplemental Reading:

- (1) King. "Migration in a World Historical Perspective," in *The Economics of Labour Migration* (ed. van den Broeck), 1996
- (2) Friedberg and Hunt. "The Impact of Immigrants on Host Country Wages, Employment, and Growth," *Journal of Economic Perspectives*, 9(2), 1995, 23-44
- (3) Macunovich. "Relative Cohort Size and Inequality in the U.S.," *American Economic Review*, 88(2), 1998, 259-264
- (4) Pedace. "Immigration, Labor Market Mobility, and the Earnings of Native-Born Workers: An Occupational Segmentation Approach," *American Journal of Economics and Sociology*, 65(2), 2006, 313-345

D. Global Labor Markets

Topics: world labor market adjustments, challenges of industrial policy and social norms for multinational firms, outsourcing labor inputs

Supplemental Reading:

- (1) Lazear. Chapter 13
- (2) Feenstra and Hanson. "The Impact of Outsourcing and High-Technology Capital on Wages: Estimates for the United States, 1979-1990," *Quarterly Journal of Economics*, 114(3), 1999, 907-940
- (3) Ono. "College Quality and Earnings in the Japanese Labor Market," *Industrial Relations*, 43(3), 2004, 595-617
- (4) Berg et al. "Contesting Time: International Comparisons of Employee Control of Working Time," *Industrial and Labor Relations Review*, 57(3), 2004, 331-349
- (5) Sotomayor. "Education and Changes in Brazilian Wage Inequality, 1976-2001," *Industrial and Labor Relations Review*, 58(1), 2004, 94-111
- (6) Almond et al. "Unraveling Home and Host Country Effects: An Investigation of the HR Policies of an American Multinational in Four European Countries," *Industrial Relations*, 44(2), 2005, 276-306
- (7) Bognanno et al. "The Influence of Wages and Industrial Relations Environments on the Production Location Decisions of U.S. Multinational Corporations," *Industrial and Labor Relations Review*, 58(2), 2005, 171-200
- (8) Kawaguchi. "The Incidence and Effect of Job Training among Japanese Women," *Industrial Relations*, 45(3), 2006, 469-477
- (9) Antras, Garicano, and Rossi-Hansberg. "Offshoring in a Knowledge Economy," *NBER Working Paper*, No. 11094.
- (10) Freeman. "Labor Market Institutions without Binders: The Debate over Flexibility and Labor Market Performance," *NBER Working Paper*, No. 11286.

(11) Blanchard. "European Unemployment: The Evolution of Facts and Ideas," *NBER Working Paper*, No. 11750.

(12) Harrison and McMillan. "Outsourcing Jobs? Multinationals and U.S. Employment," *NBER Working Paper*, No. 12372.

Final Exam: Thursday, May 14 at 1:00 pm