

Microeconomics, Module 21: “The Market for Labor”

Micro module 21: Readings for the eighth edition

(The attached PDF file has better formatting.)

Updated: October 19, 2010

{The Landsburg textbook is excellent. We say to read certain sections and to skip others. This does not mean that certain sections are better; it means that the homework assignments and exam problems are based on the sections that you must read for this course. Some of the skipped sections are fascinating, but they are not tested.}

Most actuarial candidates enjoy reading Landsburg’s chapter on labor markets. They expect successful (and lucrative) careers as actuaries, and they wish to read an economic analysis of how their wages and salaries are determined. The most important items are the value of human capital and the ability of employers to assess the human capital.

Read section 16.1 on pages 501-509. Focus on the following items:

The two goods are leisure and consumption. Leisure is the opposite of labor; each day’s leisure is 24 minus each day’s labor; see the definition on the side of the page in the text. Sleep is hard to categorize; it is not labor, but it is not really leisure; we need sleep, and we can’t not sleep. But this is just a complication, so we skip the sub-section on sleep.

Labor is an *economic bad*; leisure is the *economic good*. If we draw an indifference curve with consumption on the vertical axis and labor on the horizontal axis (as shown on page 507), the indifference curve is *flipped horizontally* from the standard indifference curves in the first several chapters of the text. If we put the economic bad on the vertical axis (such as insurance premium), we flip the indifference curve *vertically*. The type of flip affects the concavity of the curve.

Barro (macroeconomics textbook) has similar diagrams for labor, leisure, and consumption.

The text contrasts the effects of non-labor income (see the definition on page 503) with those of labor income; see Exhibit 16.3 on page 504. Know the conclusions in colored type on page 505 regarding non-labor income and on page 506 for low paid workers. Barro’s macroeconomics textbook has the same conclusions. (Barro is the more famous economist; Landsburg is the more engaging author.)

Read section 16.2 on pages 509-514. Focus on changes in productivity on page 510-512 and on intertemporal substitution on page 513. This topic is discussed by Barro at length.

Read the summary on page 520 until the last two paragraphs, which are covered in the next module.

Review questions R2, R5, and R6 on page 521. Final exam problems cover the issues in R2 and R6.

Review problem 2 on page 521. Be sure to think through both income and substitution effects.

Problem 3a on page 522 is poorly worded. College graduates and non-graduates may expect to be equally happy when they decide whether to go to college, but may not actually be so when they graduate. Non-graduates may be happier before graduation; graduates are happier after graduation.

Review problem 8 on page 522. To answer the problem, solve first problem 7.

Review problems 11 and 12 on page 522 and problem 13 on page 523. These problems relate labor to capital. The answers may seem non-intuitive to some readers, but they reflect the interaction of capital and labor: labor is more productive when it has more capital to work with.