

Microeconomics, Module 21: "The Market for Labor"

Micro module 21: Readings for the tenth edition

(The attached PDF file has better formatting.)

{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 skipped sections are fascinating, but 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. 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 505), 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 in the small box) with those of labor income; see Exhibit 16.3. Know the conclusion right above Exhibit 16-3 regarding non-labor income. Barro's macroeconomics textbook has the same conclusion.

Read section 16.2. Focus on 16.2.1, "changes in nonlabor income," 16.2.2, "changes in productivity," and on intertemporal substitution in the next subsection. This topic is also discussed by Barro in the macroeconomics textbook.

Read the summary at the end of the chapter until the last two paragraphs, which are covered in the next module.

Review questions R1, R2, R5, and R6. Final exam problems cover the issues in R2 and R6.

Review end of chapter problem 2. Be sure to think through both income and substitution effects.

Review problem 3a on page 519. 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 problems 4, 5, 8.

Review problems 11-13 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.