

Microeconomics, Module 21: “The Market for Labor”

Required reading:

(The attached PDF file has better formatting.)

Updated: July 6, 2005

{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.

Read section 16.1 on pages 525-532, skipping the section on the “demand for sleep” on page 533-534. 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 537), 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. The final exam uses the horizontal flip like Exhibit 16.1 (page 527).

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

The text contrasts the effects of non-labor income (see the definition on the side of page 527) with those of labor income. Know the conclusions in light brown type on page 528 regarding non-labor income and on page 531 regarding low paid workers. Barro (macroeconomics course) has the same conclusions as Landsburg; Barro is (perhaps) the more famous economist, but Landsburg is the more engaging author.

Read section 16.2 on pages 534-538. Focus on changes in productivity on page 536-537 and especially on intertemporal substitution on page 538. This entire section is discussed by Barro at greater length. Read the summary on pages 545-546 until the last two paragraphs, which are covered in the next module.

Review problems 2 and 4 from the problem set on page 547. Problems 11 and 13 are good for understanding the material, though they are more complex than the final exam problems. If you taking the macroeconomics on-line course as well, many of the problems in the Landsburg text help you understand the Barro text as well.