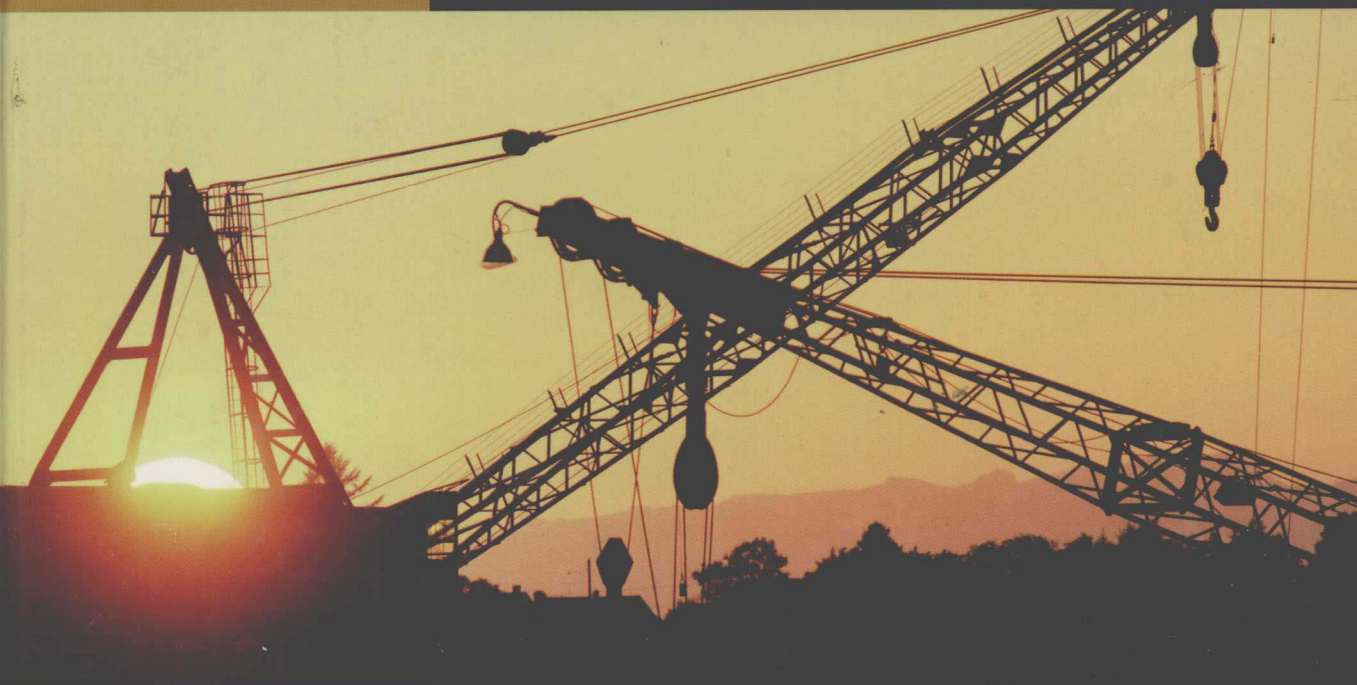


SEVENTH EDITION

CONTEMPORARY LABOR ECONOMICS



McCONNELL | BRUE | MACPHERSON

Contemporary Labor Economics

Seventh Edition

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University of Nebraska

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Pacific Lutheran University

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Preface

BACKGROUND AND PURPOSE

One of the benefits of authoring a text that has met the test of the market is the opportunity to revise. Revision provides for improvement—to delete the archaic and install the novel, to rectify errors of omission or commission, to rewrite misleading or obscure statements, to introduce more relevant illustrations, to bring more recent data to bear, to upgrade organizational structure, and to enhance pedagogical aids—in short, to build on an accepted framework of ideas. We feel that those who examine this new seventh edition of *Contemporary Labor Economics* will agree that we have fully exploited this opportunity.

Our basic purpose remains that of presenting the content of the “new” labor economics in a logical and readable fashion. While such traditional topics as labor law, the structure of unions, and collective bargaining have not been entirely crowded out, our focus is clearly on labor economics as an applied field of micro and macro theory. This volume is based on the assumption that labor economics is no longer an area tangential to the core of analytical economics but rather a critical component of that core.

The level of analysis is tailored for the undergraduate student who has completed a standard sequence on macro and micro principles. The book is designed for a one-semester or one-quarter course, although appropriate supplementation can make it usable as the focal point of a two-semester course.

THE SEVENTH EDITION

This new edition incorporates many significant changes, several of which were motivated by the comments of colleagues and students. We are especially grateful to the scholars cited in the acknowledgments who provided reviews of the various editions or commented on drafts of the new edition.

The most visible and significant modifications and additions to *Contemporary Labor Economics* are as follows:

New Topics and Expanded Discussions

New, revised, and expanded discussions permeate the seventh edition. Some of the more important changes are:

- **Public policy issues.** This edition includes a number of new discussions of public policy issues including immigration, outsourcing, living wages, earnings mobility, downsizing, the earned income tax credit, overtime pay rules, and company stock in pension plans.
- **“What Do Unions Want?” and “Strikes and the Bargaining Process.”** Chapter 10 has been revised to include content on the monopoly union and efficient contracts models of union behavior. Also new are discussions of the accident and asymmetric information models of strikes.

Continuing and Expanded Emphasis on Global Aspects of U.S. Labor Markets

The text's integrated focus on global aspects of U.S. labor markets has continued and been expanded with this edition. For example, this edition includes new "World of Work" boxes on outsourcing (Chapter 5), immigration policy (Chapter 9), and cross-country differences in intergenerational earnings mobility (Chapter 16). These new "World of Work" boxes join existing discussions of comparative advantage and international trade (Chapter 5), trade liberalization and labor standards (Chapter 6), NAFTA (Chapter 6), international pay differences (Chapter 8), immigration (Chapter 9), and international differences in the gender pay gap (Chapter 14). Also, each chapter includes "Global Perspectives" boxes that provide international comparisons on various topics.

New World of Work Sections

Sixteen of the "World of Work" boxes are new to this edition. The titles new to this edition are: The Labor Supply Impact of the Earned Income Tax Credit; Fewer Teens Have Summer Jobs; The Later Male Retirement Puzzle; Recessions and the College Enrollment Rate; Why Has Manufacturing Employment Fallen?; Offshore Outsourcing of White-Collar Jobs; Company Stock in Pension Plans; The Economics of the Oldest Profession; Are Immigrants Who Have Information Technology Skills Taking Jobs from Americans?; Will the Internet Help Revive Unions?; Labor Strife and Product Quality; Living Wage Laws; Are Long-Term Jobs Vanishing?; Cross-Country Differences in Earnings Mobility across Generations; New Data on Job Gains and Losses; and Downsizing and College Graduates.

Use of Color in Graphs

To make the graphs easier to understand, this edition uses color in its graphs.

Shortened Discussions

The discussions have been shortened, without the loss of important content, in several chapters. For example, we have trimmed the Chapter 14 discussion of "Cause and Effect: Nondiscriminatory Factors" and "Antidiscrimination Policies and Issues." In addition, many footnote lists have been condensed.

Internet Links

Each chapter now has one or more end-of-chapter Internet links. These links enable students to increase their understanding of the material as well as obtain the most current data available. Examples: a quiz to test one's conscious and unconscious preferences on over 60 different topics ranging from pets to ethnic groups; information on employee stock ownership plans and stock options; and extensive information about the history of the military draft in the U.S. as well as a description of what would happen if a draft was reinstituted.

Links on Text Website

The text's website (<http://www.contemporarylabor.com>) now includes the links for the "Internet Exercises" as well as the "Internet Links." These links will be updated if they change over the life of the edition.

ORGANIZATION AND CONTENT

The subject matter in this book generally proceeds from micro to macro topics. Figure 1.1 and the "Overview" section of Chapter 1 outline the organizational framework in some detail. Thus, we will simply call your attention to the figure here. We trust that Figure 1.1 and its accompanying discussion will provide a clear expression of our organizational approach. We fully recognize that other chapter orderings are possible and in fact may be optimal for many professors. Also, our bias has been to be inclusive in our presentation of topics. Professors can easily overcome this bias by selecting chapters for their own particular classes.

DISTINGUISHING FEATURES

At the hazard of immodesty, we feel that this volume embodies a number of features that distinguish it from other books in the field.

Content

In the area of subject matter, the emphasis in Chapter 6 and elsewhere on allocative efficiency is both unique and desirable. The efficiency emphasis makes students realize that *society* has an interest in how labor markets function. Chapter 7 brings together the literature on the principal-agent problem and the "new economics of personnel" in a single, focused chapter. Chapter 8 on the wage structure has been consistently praised by instructors for providing a thorough, systematic treatment of wage differentials and a simplified presentation of the hedonic wage theory. The comprehensive analysis of the impacts of unions and government on labor markets found in Chapters 10–13 also sets this book apart.

Chapter 14 provides extensive analysis of labor market discrimination and anti-discrimination policies. Chapter 15 discusses job search within and outside the firm. Chapter 16 confines its focus almost entirely to the distribution of personal *earnings*, rather than the usual discussion of the distribution of *income* and the poverty problem. We believe this approach to be more relevant for a textbook on *labor* economics. The critical topic of labor productivity has been largely ignored or treated in a piecemeal fashion in other books. We have upgraded this topic by according it extensive treatment in Chapter 17. Chapter 18 looks at employment and unemployment through a stock-flow perspective and uses the aggregate demand–aggregate supply model to examine natural versus cyclical unemployment. Finally, the appendix provides

a comprehensive discussion of information sources that can be used to widen and deepen the reader's understanding of the field.

Organization and Presentation

We have put great stress on the logical organization of subject matter, not only chapter by chapter but within each chapter. We have sought to develop the subject matter logically from micro to macro, from simple theory to real-world complications, and from analysis to policy. Similarly, considerable time has been spent in seeking the optimal arrangement of topics within each chapter. Chapter subheadings have been used liberally; our feeling is that the student should always be aware of the organizational structure and directional flow of the subject matter.

Many of the key topics of labor economics will be intellectually challenging for most students. We have tried not to impair student understanding with clumsy or oblique exposition. Our purpose is to communicate effectively with students. To this end we have taken great care that our writing be clear, direct, and uncluttered. It is our goal that the material contained herein be highly accessible to the typical college undergraduate who has limited training in economics.

Pedagogical Features

We have included a variety of pedagogical devices that instructors tell us significantly contribute to student understanding. First, the introduction of each chapter states the goals of the chapter and, in many cases, relates the chapter to prior or future chapters. Second, end-of-chapter summaries provide a concise, point-by-point recapitulation of each chapter. Third, key terms and concepts are highlighted at the end of each chapter, and a comprehensive glossary of these and other terms is located at the end of the book. Fourth, ample lists of questions are provided at the end of each chapter. These range from open-ended discussion questions to numerical problems that permit students to test their understanding of basic analytical concepts. Fifth, each chapter includes one or two Internet exercises and links that help students increase their understanding of the material as well as obtain the most current data available. Sixth, we have used the inside covers of the book to present relevant historical statistics that are valuable to both students and instructors. Seventh, the within-chapter "Quick Review" summaries and "Your Turn" questions should help students identify key points and study for exams. Furthermore, as indicated previously, the appendix of the book lists and discusses ways the interested reader can update statistical materials found in the book and continue the learning process beyond the course. Finally, we have included 64 short "World of Work" minireadings in this edition.

Instructor's Manual

Contemporary Labor Economics is accompanied by a comprehensive Instructor's Manual by Norris Peterson of Pacific Lutheran University. Among other features, it contains

chapter outlines and learning objectives, answers to end-of-chapter text questions, and chapter-by-chapter multiple choice questions.

Powerpoint Slides

An extensive set of Powerpoint slides is available for each chapter. These slides, which highlight the main points of each chapter using animation, are available at the text's website.

Website

The text's corresponding website (<http://www.contemporarylabor.com>) provides supplementary material. This site includes updated data, interactive quizzes, instructor's manual content, Powerpoint slides, and links to relevant websites to enhance the text-book.

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Campbell R. McConnell

Stanley L. Brue

David A. Macpherson

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Chapter 1

Labor Economics: Introduction and Overview

*The core problem of economics permeates all of its specialized branches or subdivisions. This problem is that productive resources are relatively scarce or limited. Society's material wants—the desire of consumers, businesses, and governmental units for goods and services—exceed our productive capacity. That is, our economic system is incapable of providing all the products and services that individuals and institutions would like to have. Because absolute material abundance is impossible, society must make choices as to what goods and services should be produced, how they should be produced, and who should receive them. *Economics* is concerned with the discovery of rules or principles that indicate how such choices can be rationally and efficiently rendered. Since resources are scarce and wants are virtually unlimited, society needs to manage its resources as efficiently as possible to achieve the maximum fulfillment of its wants. Labor, of course, is one of society's scarce productive resources, and this book centers on the problem of its efficient use. *Labor economics examines the organization, functioning, and outcomes of labor markets; the decisions of prospective and present labor market participants; and the public policies relating to the employment and payment of labor resources.**

LABOR ECONOMICS AS A DISCIPLINE

How can a special field of economics concerned solely with labor be justified? What makes labor economics important as an area of inquiry? There are several answers to these questions.