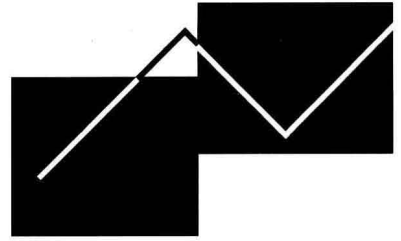


MODERN LABOR ECONOMICS

**Theory
and
Public
Policy**

**Sixth
Edition**

**Ronald G. Ehrenberg
Robert S. Smith**



SIXTH EDITION

Modern Labor Economics

Theory and Public Policy

Ronald G. Ehrenberg

*School of Industrial and Labor Relations
Cornell University*

Robert S. Smith

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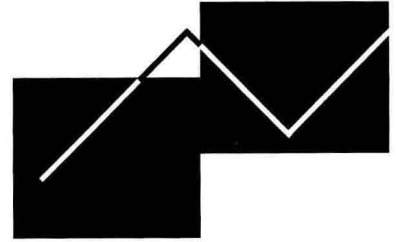
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Preface

Modern Labor Economics: Theory and Public Policy has grown out of our experiences over the last three decades in teaching labor market economics and conducting research aimed at influencing public policy. Our text develops the modern theory of labor market behavior, summarizes empirical evidence that supports or contradicts each hypothesis, and illustrates in detail the usefulness of the theory for public policy analysis. We believe that showing students the social implications of concepts enhances the motivation to learn them and that using the concepts of each chapter in an analytic setting allows students to see the concepts in action. The extensive use of detailed policy applications constitutes a major contribution of this text.

Overview of the Text

Modern Labor Economics is designed for one-semester or one-quarter courses in labor economics at the undergraduate or graduate level for students who may not have extensive backgrounds in economics. Since 1974 we have taught such courses at the School of Industrial and Labor Relations at Cornell University. The undergraduate course requires only principles of economics as a prerequisite, and the graduate course (for students in a professional program akin to an MBA program) has no prerequisites. We have found that it is not necessary to be highly technical in one's presentation in order to convey important concepts and that students with limited backgrounds in economics *can* comprehend a great deal of material in a single course. However, for students who have had intermediate microeconomics, we have included ten chapter appendixes that discuss more advanced material or develop technical concepts in much greater detail than the text discussion permits.

After an introduction to basic economic concepts in Chapter 1, Chapter 2 presents a quick overview of demand and supply in labor markets so that students

will see from the outset the interrelationship of the major forces at work shaping labor market behavior. This chapter can be skipped or skimmed by students with strong backgrounds in economics or by students in one-quarter courses. Chapters 3 to 5 are concerned primarily with the demand for labor, while Chapters 6 to 10 focus on labor supply issues.

Beginning with Chapter 11, the concepts of economics are used to analyze several topics of special interest to students of labor markets. The relationship between pay and productivity is analyzed in Chapter 11, and the earnings of women and minorities—encompassing issues of discrimination—are the subject of Chapter 12. Chapter 13 uses economic concepts to analyze collective bargaining in the private and public sectors. Chapter 14 offers an analysis of the growth of earnings inequality over the past fifteen years, and it serves the dual role of both investigating an important current phenomenon and reviewing many key concepts presented in earlier chapters. The final chapter treats the macroeconomic issue of unemployment.

In addition to the use of public policy examples and the inclusion of technical appendixes, the text has a number of important pedagogical features. First, each chapter contains two or more boxed examples that illustrate an application of that chapter's theory in a nontraditional, historical, business, or cross-cultural setting. Second, each chapter contains a number of discussion or review questions that allow students to apply what they have learned to specific policy issues. To enhance student mastery, we provide answers to the odd-numbered questions at the back of the book. Third, updated lists of selected readings at the ends of chapters refer students to more advanced sources of study.

Changes in the Sixth Edition

Those familiar with previous editions will find three major changes in the sixth edition. First, *international comparisons* are now incorporated into virtually every chapter, reflecting the growth of a truly global economy and the heightened interest of labor economists in analyzing labor markets and policies in a comparative framework. Our increased emphasis on international comparisons is based on the belief that economic theory is applicable across cultures and that students can better understand labor markets in their own countries by knowing how markets and institutions function elsewhere.

Second, virtually every chapter has been significantly trimmed with an eye toward sharpening the exposition and reducing the book's length. We have, however, maintained our practice of providing comprehensive and up-to-date citations to the professional literature on the topics we treat.

Third, several chapters have been substantially reorganized. The most prominent changes have been made in the labor demand chapters, especially Chapters 3 and 4, in which monopsonistic models are given more prominence. These changes reflect questions about the effects of minimum wage laws in the United States and elsewhere, as well as what we perceive to be growing interest among economists

in building more complexity into their models of employer behavior. Monopsonistic models are also discussed in the chapters on mobility (Chapter 10), pay and productivity (Chapter 11), and discrimination (Chapter 12). Other prominent changes are the expanded treatment of general and specific training in Chapter 5, the new policy applications contained in Chapter 6 (especially the analysis of the Earned Income Tax Credit), and the inclusion of the signaling model in the body of Chapter 9. The chapters on public sector labor markets and on inflation have been eliminated, with some of their material incorporated into Chapters 13 and 15, respectively.

Accompanying Supplements

Two supplements enrich this sixth edition of *Modern Labor Economics*. The first is a study guide prepared by Professor George Kosicki of the College of the Holy Cross. For each chapter in the text the study guide offers (a) a brief summary of the major concepts, with numerical examples when appropriate; (b) a review section with multiple-choice questions; (c) a problems section with short-answer essay questions; (d) an applications section with problems and questions related to policies or labor market issues; (e) answers to all questions and problems; and (f) one or more newspaper articles that illustrate concepts central to the chapter.

A test bank by Robert M. Whaples of Wake Forest University offers 500 multiple-choice questions for teaching. It is included with an instructor's manual that outlines the major concepts in each chapter, presents answers to the even-numbered review questions in the text, and contains two suggested essay questions per chapter (with answers).

Acknowledgments

Enormous debts are owed to four groups of people. First are those instrumental in teaching us the concepts and social relevance of labor economics when we were students: Frank Brechling, George Delehanty, Dale Mortensen, John Pencavel, Orme Phelps, and Mel Reder. Second are the generations of undergraduate and graduate students who sat through the lectures that preceded the publication of each new edition of *Modern Labor Economics* and, by their questions and responses, forced us to make ourselves clear. Third are Patricia Dickerson, who patiently typed the many revisions incorporated into the sixth edition, and Nancy Tenney, our copyeditor for the past four editions, whose careful attention to detail has benefited all readers.

Fourth, several colleagues have contributed, both formally and informally, to this sixth edition. We appreciate the suggestions of the following people:

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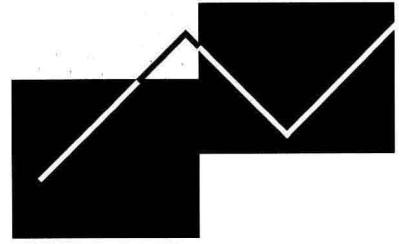
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