New Course Proposal
ECN 4890, Topics in Labor Economics

1. Catalog Description

4890 ECN Topics in Labor Economics. (3-0-3) F, S. An examination of contemporary labor economics topics such as labor history, collective bargaining, labor law, poverty, compensation structure, discrimination, and wage differentials. May be repeated once with change of topics. Prerequisite: ECN 2802G or permission of the instructor.

2. Objectives and Evaluation of the Course

As the topic of the course changes, the specific objectives and methods of evaluation may vary as well. The following are the course objectives for the topic of "compensation structure". In this course, each student will:

- Develop a basic understanding of how labor markets work.
- Analyze the incentive effects of various compensation schemes, such as hourly wages, piece-work, and commission pay.
- Examine the impact of the elimination of mandatory retirement in the United States.
- Analyze the trade-off between wages and benefits, including retirement benefits.
- Examine the effects of competition and cooperation on worker behavior.

Students will be assessed using out-of-class assignments, in-class group assignments, two unit exams, and a comprehensive final exam. Undergraduate students will be required to write a short (4-6 pages) paper applying economic theory to a current issue concerning employee compensation. Graduate students will be required to work additional, more difficult problem sets and will be required to write a research paper (with a literature review) on one of the topics covered in the course.

This course will be writing-active. Written homework assignments and short-answer essay exams will be given.

3. Outline of the Course

I. Introduction. (1 week)
   A. Course purpose and organization.
   B. Review of basic economic principles.
II. Marginal Revenue Product and the Demand for Labor. (2 weeks)
   A. Definition of marginal revenue product.
      1. Perfectly competitive firm.
      2. Monopoly firm.
   B. Definition of marginal factor cost.
      1. Perfectly competitive labor market.
      2. Monopsony labor market.
   C. The profit-maximizing level of labor.

III. Variable Pay or Straight Salary? (2 weeks)
   A. Output-based pay.
      1. Effects on screening.
      2. Incentives.
   B. Time-based pay.
      1. Measurement issues.
      2. Quality vs. quantity.
   C. Risk aversion.
   D. Long-run incentives.

First Unit Exam

IV. Seniority-Based Incentive Schemes. (2 weeks)
   A. Age (seniority)-earnings profiles.
   B. Deferred compensation.
   C. The elimination of mandatory retirement.

V. Nonmonetary Compensation (3 weeks)
   A. Monetary equivalent.
   B. Worker preferences.
   C. Desirable and undesirable job characteristics.
   D. Measurement problems (indexes and comparability).

VI. Promotions. (2 weeks)
   A. The tournament model.
      1. Salary structure.
      2. Effort.
      3. Luck.
   B. Absolute performance vs. relative performance.
   C. Internal promotions vs. hiring outsiders.
Second Unit Exam

VII. Industrial Politics.  
   A. Worker cooperation.  
   B. Work teams.  
      1. Competition among workers on same team.  
      2. Competition among workers on different teams.  
      3. Rewards for cooperation.  
   C. Other issues.  
      1. Fairness.  
      2. Guaranteed tenure.  
      3. Worker lobbying.

Comprehensive Final Exam

4. Rationale

   A. There are many challenging aspects to the labor market which simply cannot  
      be covered in the department's ECN 3890 (Labor Economics) course. This  
      course will allow students to learn more about this important market.  
   B. Numbering this course above 4750 has two advantages: (1) it distinguishes  
      more clearly between the first labor economics course (ECN 3890) which is a  
      mid-level undergraduate elective and this course which will be an advanced  
      course focusing on a particular labor topic, and (2) it makes the class  
      available to both undergraduate and graduate students. The only  
      prerequisite for the course will be ECN 2802G, which is the course that serves  
      as a prerequisite to all economics courses numbered 3000 and higher.  
   C. Other departments do not have a course that covers similar material.  
   D. This course will serve as an elective course for both undergraduate and  
      graduate students.

5. Implementation

   A. Initial assignment of the course will be to Dr. Linda Ghent.  
   B. There will be no additional costs to students.  
   C. The required textbook for the course will be:  

       & Sons, 1998, selected chapters.

       In addition, graduate students will be assigned the following readings (that  
       will be placed on reserve at the library):


D. Course will be first offered in Spring, 2004.

6. **Community College Transfer**

   A community college course will not be judged equivalent to this course.

7. **Date approved by the department: 10/16/2002**

8. **Date approved by the College of Sciences curriculum committee: 11/22/2002**

9. **Date approved by CAA: 12/12/02**  
    **CGS: 1/21/03**