

Preface to the Sixth Edition

The original motivation for writing *Labor Economics* grew out of my years of teaching labor economics to undergraduates. After trying out many of the textbooks in the market, it seemed to me that students were not being exposed to what the essence of labor economics was about: to try to *understand* how labor markets work. As a result, I felt that students did not really grasp *why* some persons choose to work, while other persons withdraw from the labor market; *why* some firms expand their employment at the same time that other firms are laying off workers; or *why* earnings are distributed unequally in most societies.

The key difference between *Labor Economics* and competing textbooks lies in its philosophy. I believe that knowing the *story* of how labor markets work is, in the end, more important than showing off our skills at constructing elegant models of the labor market or remembering hundreds of statistics and institutional details summarizing labor market conditions at a particular point in time.

I doubt that many students will (or should!) remember the mechanics of deriving a labor supply curve or the way that the unemployment rate is officially calculated 10 or 20 years after they leave college. However, if students could remember the *story* of the way the labor market works—and, in particular, that workers and firms respond to changing incentives by altering the amount of labor they supply or demand—the students would be much better prepared to make informed opinions about the many proposed government policies that can have a dramatic impact on labor market opportunities, such as a “workfare” program requiring that welfare recipients work or a payroll tax assessed on employers to fund a national health care program or a guest worker program that grants tens of thousands of entry visas to high-skill workers. The exposition in this book, therefore, stresses the *ideas* that labor economists use to understand how the labor market works.

The book also makes extensive use of labor market statistics and reports evidence obtained from hundreds of research studies. These data summarize the stylized facts that a good theory of the labor market should be able to explain, as well as help shape our thinking about the way the labor market works. The main objective of the book, therefore, is to survey the field of labor economics with an emphasis on *both* theory and facts. The book relies much more heavily on “the economic way of thinking” than competing textbooks. I believe this approach gives a much better understanding of labor economics than an approach that minimizes the story-telling aspects of economic theory.

Requirements

The book uses economic analysis throughout. *All* of the theoretical tools are introduced and explained in the text. As a result, the only prerequisite is that the student has some familiarity with the basics of microeconomics, particularly supply and demand curves. The exposure acquired in the typical introductory economics class more than satisfies this prerequisite. All other concepts (such as indifference curves, budget lines, production functions, and isoquants) are motivated, defined, and explained as they appear in our story. The book does not make use of any mathematical skills beyond those taught in high school algebra (particularly the notion of a slope).

Labor economists also make extensive use of econometric analysis in their research. Although the discussion in this book does not require any prior exposure to econometrics, the student will get a much better “feel” for the research findings if they know a little about how labor economists manipulate data to reach their conclusions. The appendix to Chapter 1 provides a simple (and very brief) introduction to econometrics and allows the student to visualize how labor economists conclude, for instance, that wealth reduces labor supply, or that schooling increases earnings. Additional econometric concepts widely used in labor economics—such as the difference-in-differences estimator or instrumental variables—are introduced in the context of policy-relevant examples throughout the text.

Changes in the Sixth Edition

Users of the textbook reacted favorably to the substantial rearrangement of material (mainly of labor supply) that I carried out in the previous edition. The Sixth Edition continues this new tradition by further tightening up the discussion on labor supply so that the chapter now contains material that can be roughly done in a week of lectures. In order to maintain the labor supply discussion at a tractable length (and in keeping with my philosophy that textbooks are not meant to be encyclopedias), some material that had been a staple in earlier editions is now omitted (specifically, the models of household fertility and household specialization).

The Sixth Edition continues and expands other traditions established in earlier editions. In particular, the text has a number of new detailed policy applications in labor economics and uses the evidence reported in state-of-the-art research articles to illustrate the many uses of modern labor economics. As before, the text makes frequent use of such econometric tools as the difference-in-differences estimator and instrumental variables—tools that play a central role in modern research in labor economics. In fact, the Sixth Edition introduces students to yet another tool in our econometric arsenal, the method of fixed effects—a technique that is widely used to ensure that the empirical analysis is indeed holding “other things equal.”

Most important, a number of users of the textbook have repeatedly requested a more technical presentation of some of the basic models of labor economics. To accommodate this request, I have written a Mathematical Appendix that appears at the end of the textbook. This appendix presents a mathematical version of some of the canonical models in labor economics, including the neoclassical model of labor-leisure choice, the model of labor demand, a derivation of Marshall’s rules of derived demand, and the schooling model.

It is very important to emphasize that the Mathematical Appendix is an “add-on.” None of the material in this appendix is a prerequisite to reading or understanding any of the discussion in the 12 core chapters of the textbook. Instructors who like to provide a more technical derivation of the various models can use the appendix as a takeoff point for their own discussion and presentation. This is the first time that such an appendix appears in the textbook, so I would particularly welcome any suggestions or reactions that would be useful in the presentation and organization of the material in the next edition (including suggestions for additional models that should be discussed).

Among the specific applications included in the Sixth Edition are:

1. Several new “Theory at Work” boxes. The sidebars now include a discussion of the impact of weather on the consumption of leisure, the link between the human capital

of kindergarteners and their socioeconomic outcomes decades later, how the exodus of renowned Jewish scientists from Nazi Germany affected the productivity of the doctoral students they left behind, the economic consequences of political discrimination in Hugo Chavez's Venezuela, the link between teachers' unions and student outcomes, and a discussion of the long-run consequences of graduating from school during a recession.

2. A careful updating of all the data tables presented in the text, and particularly the data on unemployment trends in the United States since the financial crisis of 2008.
3. An introduction to the method of fixed effects by noting how this methodology is used to estimate the key parameter that summarizes how a worker reacts to wage changes in a model of labor supply over the life cycle.
4. An expanded discussion of the "new" monopsony literature, including estimates of the labor supply elasticity at the firm level.

As in previous editions, each chapter contains "Web Links," guiding students to Websites that provide additional data or policy discussions. There is an updated list of "Selected Readings" that include both standard references in a particular area and recent applications. Finally, the Sixth Edition adds one additional end-of-chapter problem in each chapter.

Organization of the Book

The instructor will find that this book is much shorter than competing labor economics textbooks. The book contains an introductory chapter, plus 11 substantive chapters. If the instructor wished to cover all of the material, each chapter could serve as the basis for about a week's worth of lectures in a typical undergraduate semester course. Despite the book's brevity, the instructor will find that all of the key topics in labor economics are covered. The discussion, however, is kept to essentials as I have tried very hard not to deviate into tangential material, or into 10-page-long ruminations on my pet topics.

Chapter 1 presents a brief introduction that exposes the student to the concepts of labor supply, labor demand, and equilibrium. The chapter uses the "real-world" example of the Alaskan labor market during the construction of the oil pipeline to introduce these concepts. In addition, the chapter shows how labor economists contrast the theory with the evidence, as well as discusses the limits of the insights provided by both the theory and the data. The example used to introduce the student to regression analysis is drawn from "real-world" data—and looks at the link between differences in mean wages across occupations and differences in educational attainment as well as the "female-ness" of occupations.

The book begins the detailed analysis of the labor market with a detailed study of labor supply and labor demand. Chapter 2 examines the factors that determine whether a person chooses to work and, if so, how much, while Chapter 3 examines the factors that determine how many workers a firm wants to hire. Chapter 4 puts together the supply decisions of workers with the demand decisions of employers and shows how the labor market "balances out" the conflicting interests of the two parties.

The remainder of the book extends and generalizes the basic supply-demand framework. Chapter 5 stresses that jobs differ in their characteristics, so that jobs with unpleasant working conditions may have to offer higher wages in order to attract workers. Chapter 6

stresses that workers are different because they differ either in their educational attainment or in the amount of on-the-job training they acquire. These human capital investments help determine the economy's wage distribution. Chapter 7 discusses how changes in the rate of return to skills in the 1980s and 1990s changed the wage distribution in many industrialized economies, particularly in the United States. Chapter 8 describes a key mechanism that allows the labor market to balance out the interests of workers and firms, namely labor turnover and migration.

The final section of the book discusses a number of distortions and imperfections in labor markets. Chapter 9 analyzes how labor market discrimination affects the earnings and employment opportunities of minority workers and women. Chapter 10 discusses how labor unions affect the relationship between the firm and the worker. Chapter 11 notes that employers often find it difficult to monitor the activities of their workers, so that the workers will often want to “shirk” on the job. The chapter discusses how different types of pay incentive systems arise to discourage workers from misbehaving. Finally, Chapter 12 discusses why unemployment can exist and persist in labor markets.

The text uses a number of pedagogical devices designed to deepen the student's understanding of labor economics. A chapter typically begins by presenting a number of stylized facts about the labor market, such as wage differentials between blacks and whites or between men and women. The chapter then presents the story that labor economists have developed to understand why these facts are observed in the labor market. Finally, the chapter extends and applies the theory to related labor market phenomena. Each chapter typically contains at least one lengthy application of the material to a major policy issue, as well as several boxed examples showing the “Theory at Work.”

The end-of-chapter material also contains a number of student-friendly devices. There is a chapter summary describing briefly the main lessons of the chapter; a “Key Concepts” section listing the major concepts introduced in the chapter (when a key concept makes its first appearance, it appears in **boldface**). Each chapter includes “Review Questions” that the student can use to review the major theoretical and empirical issues, a set of 14 problems that test the students' understanding of the material, as well as a list of “Selected Readings” to guide interested students to many of the standard references in a particular area of study. Each chapter then ends with “Web Links,” listing Web sites that can provide more detailed information about particular issues.

The supplementary material for the textbook includes a Web site that contains much of the material that students would ordinarily find in a Study Guide (www.mhhe.com/borjas6e), a *Solutions Manual* that gives detailed answers to all of the end-of-chapter problems, PowerPoint presentations that instructors can adapt and edit to fit their own lecture style and organization, a *Test Bank* that includes 30 multiple choice questions per chapter, and a digital image library. Instructors should contact their McGraw-Hill sales representative to obtain access to both the *Solutions Manual* and the PowerPoint presentation.

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I am grateful to the many colleagues who have graciously provided me with data from their research projects. These data allow me to present the intuition and findings of many empirical studies in a way that is accessible to students who are just beginning their study of labor economics. I have also benefited from countless e-mail messages sent by users of the textbook—both students and instructors. These messages often contained very valuable suggestions, most of which found their way into the Sixth Edition. I strongly encourage users to contact me (gborjas@harvard.edu) with any comments or changes that they would like to see included in the next revision. I am grateful to Robert Lemke of Lake Forest College, who updated the Web site for this edition, helped me expand the menu of end-of-chapter problems, and collaborated in the *Solutions Manual* and *Test Bank*; and Michael Welker, Franciscan University of Steubenville, who created the PowerPoint presentation for the Sixth Edition. I have benefited from the comments and detailed reviews made by many colleagues on the earlier editions. These colleagues include:

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All editions of this book have been dedicated to my children. I began work on the first edition shortly before they began to arrive and the 6th edition is being published while my children are in college. It has been a most interesting and rewarding time. I am truly lucky and grateful to have been able to experience it.