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LABOR ECONOMICS

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**Mc
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Education

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Chapter 1

Introduction

Observations always involve theory.

—Edwin Hubble

Most of us will allocate a substantial fraction of our time to the labor market. How we do in the labor market helps determine our wealth, what we can afford to consume, with whom we associate, where we vacation, which schools our children attend, and even who finds us attractive. Not surprisingly, we are all eager to learn how the labor market works. **Labor economics** studies how labor markets work.

Our interest in labor markets, however, is sparked by more than our personal involvement. Many of the central issues in the debate over social policy revolve around the labor market experiences of particular groups of workers or various aspects of the employment relationship between workers and firms. The policy issues examined by modern labor economics include the following:

1. Do welfare programs create work disincentives?
2. What is the impact of immigration on the wage of native-born workers?
3. Do minimum wages increase the unemployment rate of less-skilled workers?
4. What is the impact of occupational safety and health regulations on employment and earnings?
5. Do government subsidies of human capital investments improve the economic well-being of disadvantaged workers?
6. Why did wage inequality in the United States rise so rapidly after 1980?
7. What is the impact of affirmative action programs on the earnings of women and minorities and on the number of women and minorities that firms hire?
8. What is the economic impact of unions, both on their members and on the rest of the economy?
9. Would merit pay for teachers improve the academic achievement of students?
10. Do generous unemployment insurance benefits lengthen the duration of spells of unemployment?