

Labor Demand:

Holmstrom - HOLE

Freeman - HOLE

Card (1990)

2 (Fonzi - Card (1991)) same model

Angrist (1996)

Borjas (2003)

Card + Krueger (1995)

Manning (2003)

Farber - HOLE (on unions)

Lewis book (on union relative wage effects)

Brown + Ashenfelter (1986) (efficient contracts)

Market structure and factor demand

$\pi(L) = p f(L) - wL$        $pf' = w$  competitive soln.

$\downarrow$   $D(f(L))$        $\downarrow$   $s^{-1}(L)$  if not perfectly competitive  
 ↳ monopolist      ↳ monopsonist  
 [if not p.c. in product market  
 ↳ monopolist]

ignore monopolist for now

$D^{-1}(f(L)) f(L) - wL = \pi(L) \Rightarrow \pi'(L) = 0$

$\Rightarrow f'(L) \left(1 + \frac{1}{\eta}\right) = \frac{w}{p} \Rightarrow L^m < L^*$   
 $\eta < -1$  demand elasticity      competitive

• monopolists hire fewer workers

Monopolist might share rents with workers.  
 • efficient for rents to be shared via featherbedding  
 (ie 3 pilots on a plane that could be flown with one.)

Union has preferences  $U(w, L)$

e.g.  $u(w, L) = (w - \underbrace{\bar{w}}_{\text{alternative wage}}) (L - \underbrace{\bar{L}}_{\text{threshold workers}}) \geq \bar{u}$

Ashenfelter-Brown - bargaining b/t employers and unions  
 • are bargains efficient?

Factor side (monopsony)

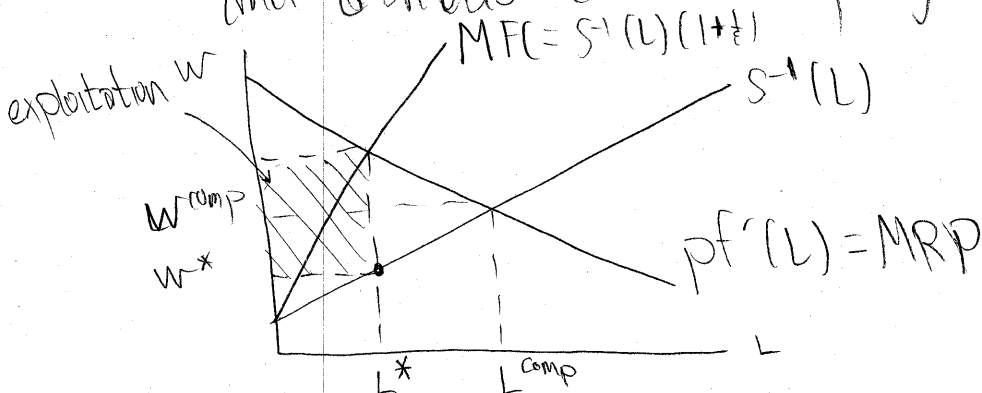
$$\pi(L) = pf(L) - S^{-1}(L)L$$

$$\pi'(L) = 0 \Rightarrow pf'(L) - (\overbrace{S^{-1}'(L)L}^{w'}) - \overbrace{S^{-1}(L)}^w = 0$$

$$\Rightarrow pf'(L) = (1 + \underbrace{\frac{1}{\epsilon}}_{\text{elasticity of labor supply}})w$$

want to discriminate b/t the marginal and inframarginal wages.

• signing bonuses  
 The only indentured service in the U.S. are the military and athletes. (baseball players.)



• monopolist pays less and hires fewer workers

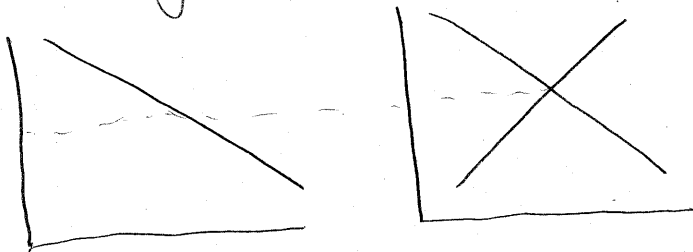
"What does ..... do to his RA's?"

"Beat them?"

"You're on the right track."

at prevailing wages, there is excess demand for labor.

Minimum wage:



• Turns the employer into a price-taker over the relevant range.

Fast food places give "buddy buds" to people who get their friends a job there?