

# Lec 0: An Introduction to Modern Labor Economics

*Labor Economics, Fall 2024*

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What is Labor Economics and Why do we have to learn?

Five Unique Characteristics

Labor Economics in China

Textbooks and Evaluation

What is Labor Economics and Why do we have to learn?

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# What is Economics?

- Economics is a social science studying the allocation of scarce resources used to satisfy unlimited human wants.
  - **Social Science: disciplines concerned with society and the relationships among individuals within a society.**
- Not only an instrument of analyzing but a way of thinking.

- Labor Economics studies how the labor market works economically.
- It includes
  1. The mechanism of labor market
  2. The allocation of human resources within a firm
  3. Unemployment and income distribution

## Typical Questions

- Why do people with higher education earn more money than those with lower ones?
- What is the impact of immigration on the wage and employment opportunities of native-born workers?
- Do minimum wages increase the unemployment rate of less-skilled workers?

## Chinese Specific Issues

- What is responsible for the increasing inequality in China? (收入差距)
- Has rural-to-urban migrants lowered wages and increased unemployment of urban residents? (城乡移民—“农民工”)
- Is the “996” work culture in China a catalyst for economic success, or does it reflect deeper systemic issues that sacrifice worker well-being and legal protections?

# Classical Content

- Labor Supply and Demand (劳动供给和需求)
- Human Capital (人力资本)
- Compensating wage differentials (补偿性工资差异)
- Discrimination (歧视)
- Migration (迁移)
- Wage and Income Inequality (工资与收入不平等)
- Unemployment (失业)



## Why we have to learn

- Most of us will spend substantial time in the labor market.
- So learning labor economics certainly can help you think about many things related to your life.
  1. Why do you go to NJU and learn economics?
  2. Whether you should go abroad for study or take a job in the market when you graduate in two years?
  3. Should you spend much more time studying English than Labor Economics?

## Why we have to learn

- As a people, especially an **educated** one in a certain society, we have to think about some bigger issues and analyze some interesting and controversial phenomenon
  1. Why the inequality level in China is so higher than in most other transition countries?
  2. Why are so many migrant workers in cities, and how much is their contribution to the miracle of economic growth in China?
  3. Why many college graduates can not find a job every year while many employers say they are short of labor?

## Why we have to learn

- There are many public policies in our public life related to labor economics.
  1. Has the new Labor Law implemented affected wages and employment in China?
  2. Should the government delay the official age of retirement for workers?
  3. Who will get more benefit from income tax reduction? How will people react to the policy change?

## Why we have to learn

- Labor Economics is a very important sub-discipline in Economics.
- A main course in most famous universities all over the world, and it is delivered at different levels by different programs such as
  - a) Department of Economics
  - b) Business School
  - c) Public Affairs and Administration School
  - d) School of Labor and Industrial Relations
  - e) School of Public Health

## A Brief History

- Early Stage: Smith(1776), Marshall(1890), Hicks(1932)
- In the 1940s, labor economics became an autonomous discipline in the US at the hands of John Dunlop, Clark Kerr, Richard Lester, and Lloyd Reynolds.
- Their approach which was primarily descriptive was to take the institutional specifics of labor market into account.
- The first textbook by Lloyd Reynolds named

## A Brief History

- The first generation textbooks of modern labor economics by [Belton Fleisher\(1970\)](#) and [Richard Freeman\(1972\)](#).
- Since then, labor economics has undergone the same evolution as many other fields.
- So, let us see the characteristics of Modern Labor Economics now.

## Five Unique Characteristics

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# Characteristics No.1

- More complex than others relatively because we focus on human behaviors directly by an economic view in Labor Economics.
  1. There are so many **non monetary factors** can affect the human decisions. More cultural/psychological factors also work.
  2. There are so many **organizations** such as government and NGOs and **institutions** such as laws, disciplines, etc., besides firms and workers playing key roles in Labor Economics.



## Characteristics No.2

- Empirical analysis is more common and relies on more diverse data sources in labor economics than in other economics.
  - a) Almost 80% use empirical analysis
  - b) 2/3 use Micro data(Q-what is Microdata?)
- In the 1970s, microdata started to out-number time series data. By the mid-1990s, microdata was ten times the time-series data.
- In other fields, the two data types are more evenly split.

Table 1

Empirical and econometric work in labor economics, 1985–1997<sup>a</sup> (numbers of articles and methods)

	1985–1987	1995–1997
<i>All articles</i>	440	295
With empirical content	278	227
Without empirical content	162	68
<i>Types of datasets used</i>		
Cross-section	113	74
Panel	97	118
Repeated cross-section	40	46
Time series	18	26

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# Angrist and Krueger(1999)

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Percent of articles in each category<sup>a</sup>

	Labor economics articles					All fields
	1965–1969	1970–1974	1975–1979	1980–1983	1994–1997	1994–1997
Theory only	14	19	23	29	21	44
Micro data	11	27	45	46	66	28
Panel	1	6	21	18	31	12
Experiment	0	0	2	2	2	3
Cross-section	10	21	21	26	25	9
Micro dataset						
PSID	0	0	6	7	7	2
NLS	0	3	10	6	11	2
CPS	0	1	5	6	8	2
SEO	0	4	4	0	1	0
Census	3	5	2	0	5	1
All other micro datasets	8	14	18	27	38	21
Time series	42	27	18	16	6	19
Census tract	3	2	4	3	0	0
State	7	6	3	3	2	2
Other aggregate cross-section	14	16	8	4	6	6
Secondary data analysis	14	3	3	4	2	2
Total number of articles	106	191	257	205	197	993

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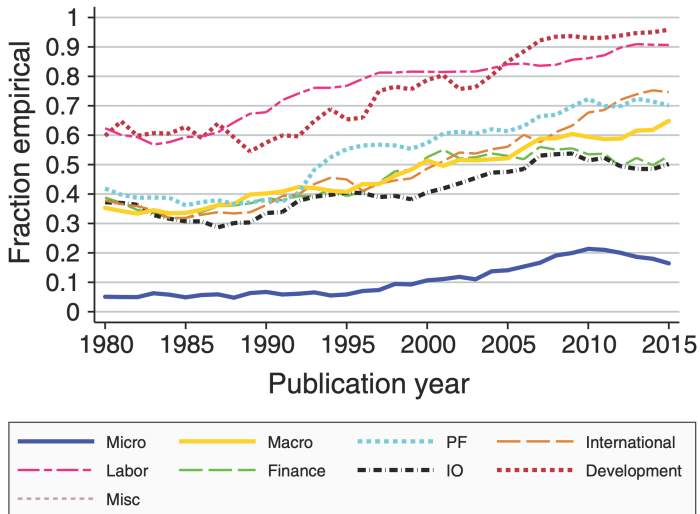


FIGURE 4. WEIGHTED FRACTION EMPIRICAL BY FIELD



## Characteristics No.3

- Use edge-cutting econometric and statistical methods.
- Outside of time-series econometrics, many and perhaps most innovations in econometric technique and style since the 1970s were motivated by research on labor-related topics.
  - a) *Sample selection models to female labor supply*
  - b) *Matching for training program*
  - c) *Instrumental Variables for returns to schooling*
  - d) *Regression Discontinuity for scholarship application*
  - e) *DID for minimum wage*

## Characteristics No.4

- Some sub-disciplines birth from labor Economics.
  - a) Health Economics
  - b) Economics of Education
  - c) Personnel Economics
- Some sub-disciplines highly correlate with it.
  - a) Development Economics
  - b) Population Economics
  - c) Macro Economics
  - d) Urban/Social Economics

## Characteristics No.5

- Most Important and Inspired: In my opinion, it is the most *interesting sub-disciplines* in Economics.
- Two Interesting Samples
  - *Freakonomics* written by [Steven Levitt](#).  
Eg. Abortion in Romania
  - *Economic Gangster* written by [Raymond Fisman](#) and [Edward Miguel](#).  
Eg. What is it worth to be the president's son(or daughter)?

# Labor Economics in China

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- Now you are studying one of the most **promising** and **internationalizing** fields in China economic studies.
  - More and more surveys are coming, so more and more data sets are available in the following years.
  - More and more opportunities to communicate with international scholars.
  - More and more grants to support the research.
  - More and more publishing opportunities.

## 1. Chinese Household Income Project(CHIPs)

- Principle Investigator: Zhao Renwei(CASS) and Li Shi(BNU)
- 1988,1995,2002,2007,2013,5 waves cross-section data.
- The first large-scale and most well-known Chinese household surveys in the international academia.
- Based on the data sets, hundreds of papers have been published in high-class international and domestic academic journals.

## 2. Chinese Health And Retirement Longitudinal Survey (CHARLS)

- Principle Investigator: Zhao Yaohui (CCER) and John Strauss(USC)
- 2008(pilot),2011(baseline-nation wide),2012(wave 2 in pilot) 2013(wave 2),2014(wave 3 for Life History Survey),2015(wave 4)
- Found by National Institutes of Health(USA) and National Science Foundation(China)
- As a part of a worldwide survey on the middle-aged and elderly. (age>45)

## 3. Rural to Urban Migration in China

- Principle Investigator: Meng Xin(AUS), Li Shi(BNU)
- 2008,2009,2010,3 waves panel data
- The first panel targets migrants in China.
- Funded by AusAID, Ford Foundation, and IZA.



# Popular Household Surveys

## 4. Chinese Health and Nutrition Survey(CHNS)

Very good data sets for health, and it is Panel

## 5. Chinese Family Panel Survey (CFPS)

## 6. China General Social Survey(CGSS)

## 7. China Labor-force Dynamics Survey(CLDS)

## 8. Chinese Industrial Enterprise Survey

## 9. Others

- Census
- ...
- The last: data from statistics yearbooks

- Several Top Journals published by Chinese Economists over ten years ago.
- 1) Shan-jin Wei and Xiaobo Zhang, "The Competitive Saving Motive: Evidence from Rising Sex Ratios and Savings in China," *Journal of Political Economy*, 119(3),2011.

- 2) Hongbin Cai(GSM, Peking), Chen Yuyu(GSM, Peking) and Hanming Fang(Yale), "Observational Learning: Evidence from a Randomized Natural Field Experiment," [\*American Economic Review\*](#), Vol 99, issue 3, June 2009.
- 3) Shen Kailing(WISE, Xiamen) and Peter Khun, "Gender Discrimination in Job Ads: Theory and Evidence in China," [\*Quartly Journal of Economics\*](#) Vol 128, issue 1, Feb. 2013.

- 4) Hongbin Li(Tsinghua), Mark Rosenzweig(Yale) and Junsen Zhang(CUHK), "Altruism, Favoritism, and Guilt in the Allocation of Family Resources: Sophie's Choice in Mao's Mass Send Down Movement," *Journal of Political Economy*(lead article) Vol 118, issue 1, February 2010.

### Whatever you would like to be

- How to learn in college in 2024?
- Be a practical idealist...
- Enjoy doing things you like seriously and cultivate a special quality for yourself!

## Textbooks and Evaluation

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## English Textbooks

- Borjas G.(2010), *Labor Economics, fifth edition, McGraw-Hill Inc.*
- the most popular undergraduate textbook in U.S

## Textbooks in Chinese

- 陆铭 (2007), 《劳动和人力资源经济学——经济体制与公共政策》, 上海人民出版社。(新版本: 陆铭和梁文泉, 2017, 格致出版社)
- 蔡昉、都阳、高文书和王美艳 (2009), 《劳动经济学——理论与中国现实》, 北京师范大学出版社。(新版本, 蔡昉和张车伟, 2015, 中国社会科学出版社)
- 李晓春和曲兆鹏 (2011), 《劳动经济学》, 南京: 南京大学出版社。(新版本, 北京大学出版社, 预计 2025 年出版)



## Additional Econometrics Books

- James Stock and Mark Watson, *Introduction to Econometrics*, Addison-Wesley, 2007.
- Jeffrey M. Wooldridge, *Introductory Econometrics: An Modern Approach*, Thomson, 2005.

## Interesting Books

- Steven D. Levitt and Stephen J. Dubner, *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*, 2005. (中译本《魔鬼经济学》斯蒂夫 ■ 列维特、斯蒂芬 ■ 都伯纳著, 广东经济出版社, 2006 年 1 月。)
- Steven D. Levitt and Stephen J. Dubner, *SuperFreakonomics: Global Cooling, Patriotic Prostitutes, and Why Suicide Bombers Should Buy Life Insurance*, 2009. (中译本,《超爆魔鬼经济学》, 斯蒂夫 ■ 列维特、斯蒂芬 ■ 都伯纳著, 中信出版社, 2010 年 1 月。)

## Interesting Books

- Ian Ayres, Super Crunchers: Why Thinking-By-Numbers is the New Way To Be Smart, 2007. (中译本《超级数字天才》，伊恩 ■ 艾瑞斯著，中国青年出版社，2008年1月。)
- Raymond Fisman and Edward Miguel, Economic Gangster: Corruption, Violence and the Poverty of Nations, 2008. (中译本《经济黑帮：腐败、暴力的黑帮经济学》，中信出版社，2010年8月。)

## What I promise to offer you

- Prepare lectures as well as possible
- Help you familiarize with some classical issues in labor economics and several key and hot topics about the Chinese labor market.
- Guide you pay more attention to the realities of China
- A good score?

## What I Expect From You

- Attend the class and discuss the topics with a little “aggressive” attitude.
  - “More questions, More scores” if you care about the scores...
- Read required materials, understand the content in lectures and finish your homework independently.

# Evaluation

- Class Participation and Performance(10%)
- Discussion and Homework (30%)
- Final Exam (60%):
  - **Language:** Questions will be written in English. Answering in both English and Chinese will be fine.
  - **Open-Book Exam:** You can take textbooks, slides, and other materials.

# Two Rules



**Don't ever cheat on assignments and exams!**

## Two Rules



**Don't ever snitch your teachers to help political repression!**

- To protect the trust between students and teachers.
- To respect the classroom as a safe space for open discussion.



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