# Economics of Labour

## Prof. Lorenzo Cappellari

***COURSE AIMS AND INTENDED LEARNING OUTCOMES***

The course tackles the main themes connected to the functioning of the labour market and the analysis of the behaviour of labour market participants: businesses, individuals and institutions. The course also looks at theoretical and empirical aspects in relation to questions closely linked to the labour market, including: human capital, inequality, discrimination, migration and crime. The various issues of interest are tackled in such a way so as to reflect the recent development of research about economics of labour; therefore, theoretical models are combined with a rigorous reading of empirical evidence and attention to the implications of labour policy.

At the end of the course, students will be able to:

* understand the choices of companies and workers in the labour market;
* understand the impact of institutions on labour market balances;
* understand the determinants of investment choices in human capital;
* identify the tools available to companies for selecting and motivating their workers;
* use basic econometric techniques to analyse real micro-data on the labour market.

***COURSE CONTENT***

The first part of the course considers the basics of labour market analysis, starting from micro-foundations: supply, demand and equilibrium. It also considers the effects of market imperfections, their consequences in terms of unemployment and the characteristics of the institutions of the labour market, also in the light of reforms under way in Europe.

The second part of the course analyses decisions for investment in human capital, and the labour relationship within businesses, while also examining labour econometrics, discrimination in the labour market, and the study of several current themes.

1. Labour supply

Definitions: intensive and extensive margins, participation, use of time.

Individual labour supply model.

From individual supply to market supply.

Labour supply in the family.

Taxation and labour supply.

2. Labour demand

Technology and production.

Labour demand of a business in the short and long term.

Market labour demand.

Labour demand with respect to workers with different qualifications.

Costs of adjustment, costs of dismissal and temporary work.

3. Equilibrium in the labour market

Equilibrium of perfect competition with businesses having homogeneous workers.

Wage differentials with heterogeneous workers, and compensatory wage differentials.

4. Non-competitive labour market

Wage rigidity and unemployment.

Information asymmetries and labour market failure: microeconomic and macroeconomic implications.

Labour market with unrest and unemployment.

5. Labour market institutions

Minimum wage.

Unions.

Systems for employment protection.

Unemployment subsidies and labour policies.

6. Investments in education

The decision to invest in education.

Quality of education.

Education as a sign of talent.

How much does it pay to study?

7. Economics of human resources

Personnel selection.

On-the-job training and generic human capital.

On-the-job training and specific human capital.

Incentives.

8. Econometrics of labour

Use of regression model in economics of labour: estimation of wage equation.

The issue of causality.

Estimation of causal effects of labour policies.

***READING LIST***

L. Brucchi, *Pepi De Caleo: Manuale di Economia del Lavoro,* Il Mulino, Bologna, 2015.

Other readings and instructional materials, if any, will be indicated in class.

***TEACHING METHOD***

Theoretical lectures accompanied by empirical applications relating to the main topics addressed.

Students who wish to do so, will be able to study specific course topics - to be agreed with the lecturer - in more depth, possible examples being: the economics of crime, discrimination, inequality, migration.

***ASSESSMENT METHOD AND CRITERIA***

The learning outcomes will be determined on the basis of a written test with questions about topics covered in both course modules.

The answers to the questions designed to determine students' understanding of the theoretical foundations will be assessed by taking into account the level of knowledge shown, and the capacity to present and support a line of reasoning.

All questions will be marked out of thirty; the final mark will be the average of the marks obtained in the individual questions.

A supplemental oral exam, if any, can entail an increase or decrease of a maximum of three points to the mark earned on the written test.

An interim test is contemplated, and is designed to take into account the content of the lectures. Students taking the interim test must complete the exam within the first available exam session.

Additional details are on the lecturers' web pages.

***NOTES AND PREREQUISITES***

Students taking this course should be familiar with the fundamental notions of the following courses: Political Economics I, Political Economics II, Mathematics, and Statistics I.

In case the current Covid-19 health emergency does not allow frontal teaching, remote teaching will be carried out following procedures that will be promptly notified to students.

Further information can be found on the lecturer's webpage at http://docenti.unicatt.it/web/searchByName.do?language=ENG, or on the Faculty notice board.