

What's new in the 6th Edition of Labor Economics?

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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 pre-requisite 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.