

Course Introduction

Labor economics

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Motivating example: minimum wage

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- Standard answer: **yes**.

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Krueger: Really? What does the data say?

Card and Krueger (1994)

- Krueger and Card compared **fast-food restaurants** in New Jersey and Pennsylvania after a minimum wage increase in New Jersey.
 - Employees in fast-food restaurants are most subject to the minimum wage policy
- They found no evidence that the rise in New Jersey's minimum wage reduced employment at fast-food restaurants in the state.
- **Employment had actually risen.**

“Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania,” Card and Krueger (1994)

On April 1, 1992, New Jersey’s minimum wage rose from \$4.25 to \$5.05 per hour. To evaluate the impact of the law we surveyed 410 fast-food restaurants in New Jersey and eastern Pennsylvania before and after the rise. Comparisons of employment growth at stores in New Jersey and Pennsylvania (where the minimum wage was constant) provide simple estimates of the effect of the higher minimum wage. We also compare employment changes at stores in New Jersey that were initially paying high wages (above \$5) to the changes at lower-wage stores. We find no indication that the rise in the minimum wage reduced employment. (JEL J30, J23)

Influences of Card and Krueger (1994)

- Economists start to adopt a more empirical perspective, with the identification of clever discontinuities.
- Use **natural** / **quasi** experiments that tested economic theory in the real world
- Conclusions that are inconsistent with traditional theories are taken seriously (if the empirical evidence are solid):
 - Increasing minimum wage may NOT increase unemployment.
 - Labor supply can decrease as wage increases. (Camerer, Babcock, Loewenstein and Thaler, 1997)

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 - If your econometric methods are not solid, nobody will buy your results regardless of how innovative they are.

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- **Project-based learning:**
 - Learn by doing.
 - Labor econ is a big field. Related projects can be on human capital, education, minimum wage, discrimination, inequality, business cycles, and more...

Suggested readings

