



12th edition
Gwartney - Stroup
Sobel - Macpherson

Earnings, Productivity, and the Job Market

Full Length Text — Part: 5 Chapter: 25
Micro Only Text — Part: 3 Chapter: 13


To Accompany "Economics: Private and Public Choice 12th ed."
James Gwartney, Richard Stroup, Russell Sobel, & David Macpherson
Slides authored and animated by:
James Gwartney, David Macpherson, & Charles Skipton


[Next page](#)  Copyright ©2009 Thomson South-Western. All rights reserved.



12th edition
Gwartney - Stroup
Sobel - Macpherson

Why Do Earnings Differ?


[Jump to first page](#)  Copyright ©2009 Thomson South-Western. All rights reserved.




12th edition
Gwartney - Stroup
Sobel - Macpherson

Why Do Earnings Differ?

- Earnings would be equal if:
 - all individuals were identical
 - all jobs were equally attractive
 - workers were perfectly mobile among jobs

[Jump to first page](#)  Copyright ©2009 Thomson South-Western. All rights reserved.



12th edition
Gwartney - Stroup
Sobel - Macpherson

Earnings Differentials Due to Non-identical Workers

- **Worker productivity:**
 - More productive workers have greater earnings.
- **Worker preferences:**
 - Workers motivated by monetary objectives are likely to pursue jobs with higher wages.
- **Race and gender:**
 - Discrimination may lower earnings opportunities of minorities and women.

◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

12th edition
Gwartney - Stroup
Sobel - Macpherson

Earnings Differences of Skilled and Unskilled Workers

- The productivity and thus marginal product of skilled workers is greater than that of unskilled workers.
- Hence, the **demand** for skilled workers D_s exceeds the **demand** for unskilled workers D_u .
- Education and training generally enhance skill.
- Because it is costly to upgrade skills through investments in human capital, the **supply** of skilled workers S_s is smaller than the **supply** of unskilled workers S_u .

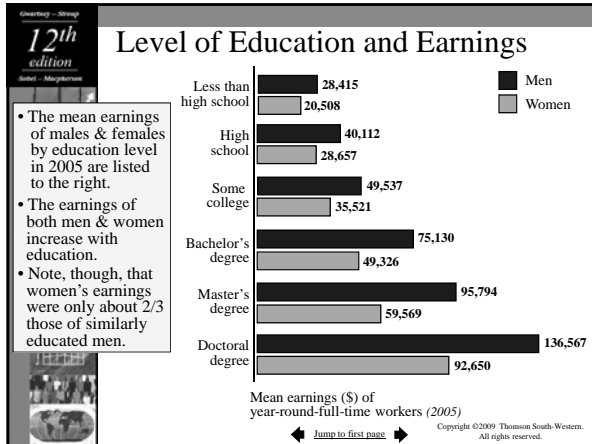
◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

12th edition
Gwartney - Stroup
Sobel - Macpherson

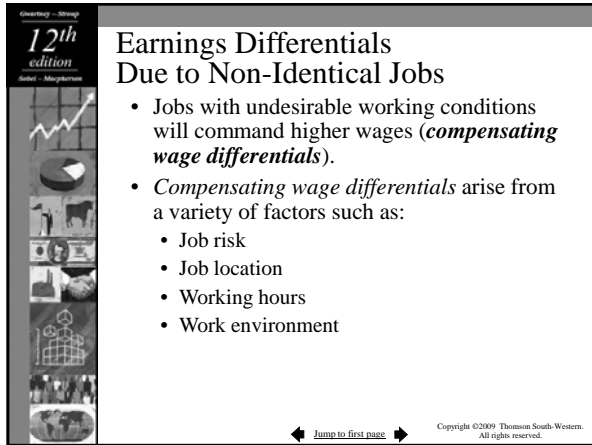
Earnings Differences of Skilled and Unskilled Workers

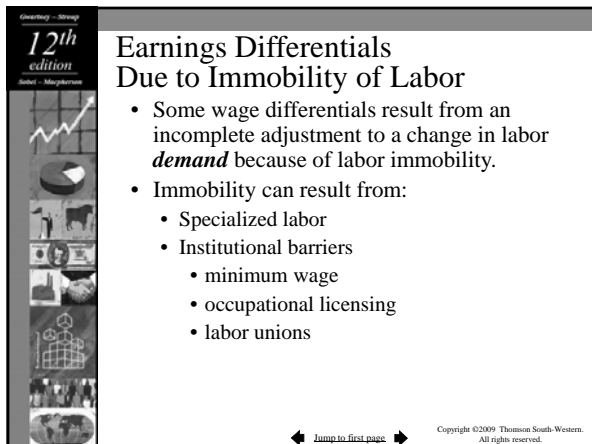
- The wages of skilled workers are high relative to unskilled workers due to the strong **demand** and small **supply** of skilled workers relative to unskilled workers.

◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.



- The mean earnings of males & females by education level in 2005 are listed to the right.
- The earnings of both men & women increase with education.
- Note, though, that women's earnings were only about 2/3 those of similarly educated men.





12th edition
Gwartney - Stroup
Sobel - Macpherson

The Economics of Employment Discrimination

← Jump to first page → Copyright ©2009 Thomson South-Western. All rights reserved.

12th edition
Gwartney - Stroup
Sobel - Macpherson

Wage Discrimination

- When white workers are preferred to minority workers (*or men to women*), the **demand** for minority workers is reduced.
- Minority workers receive lower wages.

← Jump to first page → Copyright ©2009 Thomson South-Western. All rights reserved.

12th edition
Gwartney - Stroup
Sobel - Macpherson

Impact of Wage Discrimination

• If there is employment discrimination against minorities (*or women*), the **demand** for their services will decline.

• As a result of this lower **demand**, the equilibrium wage for minorities will be lower, $W_w > W_m$.

← Jump to first page → Copyright ©2009 Thomson South-Western. All rights reserved.

12th edition
Gwartney - Stroup
Sobel - Macpherson

Employment Discrimination

- When discrimination is present, the entry of minority workers into some types of jobs and occupations may be restricted.
- If so, the **supply** in unrestricted jobs will increase, causing wages to fall in these jobs.
- When the **supply** of minorities (*or women*) to an occupation is restricted, the wages of white males will rise.

◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

12th edition
Gwartney - Stroup
Sobel - Macpherson

Employment Discrimination

- **Discrimination is costly** to employers.
- When employers can hire equally productive minorities (*or women*) at a lower wage than whites (*men*), the profit motive gives them a strong incentive to do so.
- Employers who ignore minority and gender status when employing workers will have lower wage costs than employers who discriminate.

◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

12th edition
Gwartney - Stroup
Sobel - Macpherson

Employment Discrimination and Earnings of Minorities

- Earnings may differ among groups for reasons besides employment discrimination.
- To measure the extent of employment discrimination, we must
 - adjust earnings for differences between groups in productivity-related factors such as education, and,
 - then make comparisons between similarly qualified groups of workers who differ only in race or gender.

◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

12th edition
Gwartney - Stroup
Sobel - Macpherson

The Link Between Productivity and Earnings

◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

12th edition
Gwartney - Stroup
Sobel - Macpherson

Productivity and Earnings

- Productivity is the source of high wages.
- Workers in the U.S. earn high wages because their output per hour is high as a result of:
 - Greater worker knowledge and skills (*human capital*)
 - The use of modern machinery (*physical capital*)

◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

12th edition
Gwartney - Stroup
Sobel - Macpherson

Productivity and Earnings

Annual rate of increase of productivity and real wages

Period	Rise in output per hour (private business sector)	Rise in real compensation (private business sector)
1948-1973	3.2%	2.8%
1974-1995	1.5%	0.7%
1996-2006	2.9%	2.0%

- Productivity & compensation per hour are closely related.
- Relative to the 1948-1973 period, growth in productivity and real wages slowed during 1973 - 1995. Both rebounded substantially during the 1996-2006 time frame.

◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

Gwartney - Stroup
12th
edition
Sobel - Macpherson

Productivity Rebound

- Productivity rebounded significantly between 1996 and 2006 after being relatively low for the previous 20 years.
- Most economists believe that the increase in productivity growth is the result of the recent computer revolution and related technological innovations.
- If the acceleration in productivity continues, increases in wages in the years ahead will be more rapid than during the 1974-1995 period.

◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

Gwartney - Stroup
12th
edition
Sobel - Macpherson

Automation

- Automated methods of production will only be adopted if they reduce costs.
- Automation may reduce employment in a specific industry.
 - But, it also releases resources that can be employed in other areas.
- Improved technology permits us to achieve larger output and income levels.

◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

Gwartney - Stroup
12th
edition
Sobel - Macpherson

Questions for Thought:

1. Why are wages higher in the United States than in India or China?
2. “Jobs are the key to economic progress. Unless we create more jobs, our standard of living will fall.”
-- Is this statement true or false?
3. Do you think the market system of wage determination is fair? Why or why not? Can you think of a more equitable system? If so, explain why it is more equitable.

◀ Jump to first page ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

