

## B44: THE ECONOMICS OF INDUSTRIAL RELATIONS

### Department of Economics, University College London

### Spring 2002

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*All course details and news will be posted on the course web page at  
<http://home.uchicago.edu/~jabbring/b44/>  
 (page may be moved to UCL location; if so, there will be a link at this address)  
 Please check regularly!*

## Description

This course is about the economics of labour relations, an issue that has recently re-emerged as a topic of major interest for economists. The course aims to provide a balance between the institutional approach that has been followed by students of industrial relations for many years and various modern developments in labour economics. The goal is to equip students with an understanding of the operation of labour markets, their main institutional features and the economic analysis of employment contracts. We rely on economic theory to structure thoughts and study the empirical literature to link these thoughts to reality.

## Organization

*Office hours:* Mondays 4:15–5:15 PM in 205 Drayton House (223 Drayton House in week 1).

*Lectures:* Mon 3:00–4:00 PM and Thu 4:00–5:00 PM in the Edward Lewis Lecture Theatre from Mon 7 Jan – Thu 21 Mar. There are no lectures on Mon 11 Feb and Thu 15 Feb.

*Classes:* Four Cycle B tutorial classes, in weeks 4, 7, 9 and 11 (see table below).

*Coursework:* Four problem sets, one for each class, which typically include some exercises and/or short written assignments (but not full essays). *You are required to submit coursework for 3 out of 4 classes.* Coursework should be submitted to your class teacher via the Tutorial Class pigeon-holes before 12 noon on the Thursday before the next class. *Late submissions are not accepted.* All coursework must be submitted with a cover sheet attached to the front. These are available from the Reception. Problem sets will be posted on the course website at least one week before the deadlines. In sum:

Class #	Week #	beginning	Problem set posted before 12 noon on	Answers handed in before 12 noon on
1	4	Mon 28 Jan	Thu 17 Jan	Thu 24 Jan
2	7	Mon 18 Feb	Thu 7 Feb	Thu 14 Feb
3	9	Mon 4 Mar	Thu 21 Feb	Thu 28 Feb
4	11	Mon 18 Mar	Thu 7 Mar	Thu 14 Mar

*Examination:* Two hour written exam in Term 3. Sample exam papers will be posted soon.

## Outline

1. Introduction and overview
2. Standard neoclassical labor market theory and its problems
  - (a) Wages, employment and human capital
  - (b) Labour relations: Trade unions, incomplete contracts and human-resource systems
3. Trade unions and labour market power
  - (a) Overview and history
  - (b) Wage setting, employment and allocative efficiency: Right-to-manage, monopoly-union and efficient-bargaining models; Two-sector models
  - (c) Empirical analysis of wage and employment effects of unions
  - (d) Union membership, source of monopoly power, insider-outsider theory, strikes
4. Minimum wages (if time permits)
5. Human-resource systems
  - (a) Overview and history
  - (b) Incomplete contracts and labour relations
  - (c) Compensation policies and internal labor markets: Selection, motivation, insurance, specific investments (topics include incentive pay, efficiency wages, deferred compensation, promotions and tournaments, executive pay)
  - (d) The role of trade unions, corporatism
  - (e) Empirical analysis of the effect of human-resource systems and unions on wage and non-wage (employment, profits, investment and innovation) outcomes

Possible other topics are minimum wages, search. Details will be posted on the course web page.

## General reading

There is no single text for this course. Some handouts will be provided. Here, we give general references. Details will be announced as we go.

Two particularly useful and complementary texts are

Booth, A. (1995), *The Economics of the Trade Union*, Cambridge University Press, Cambridge.  
 Milgrom, P. and J. Roberts (1992), *Economics, Organization and Management*, Prentice-Hall International, London.

Booth (1995) is a comprehensive text on unions, with US and UK data, theory and empirical results. Milgrom and Roberts (1992) discusses the modern theory of economic organization. Part V on employment relations is particularly relevant to this course.

Other useful specialized texts are

Lazear, E. (1996), *Personnel Economics*, Chicago University Press, Chicago.  
 Freeman, R.B. and J.L. Medoff (1984), *What Do Unions Do?*, Basic Books, New York.  
 Polachek, S. and S. Siebert (1993), *The Economics of Earnings*, Cambridge University Press, Cambridge, UK.

The following two books are good sources of information on UK employment relations.

Cully, M., S. Woodland, A. O'Reilly, and G. Dix (1999), *Britain at Work: As Depicted by the 1998 Workplace Employee Relations Survey*, Routledge, London.  
 Millward, N., A. Bryson, and J. Forth (2000), *All Change at Work? British Employment Relations 1980–1998, as Portrayed by the Workplace Industrial Relations Survey Series*, Routledge, London.

International comparisons of institutions and outcomes can be found in

Layard, R., S. Nickell, and R. Jackman (1991), *Unemployment; Macroeconomic Performance and the Labour Market*, Oxford University Press, Oxford.  
 Layard, R., S. Nickell, and R. Jackman (1994), *The Unemployment Crisis*, Oxford University Press, Oxford.

General labour economics texts like

Borjas, G.J. (2000), *Labor Economics*, second edition, McGraw-Hill, Boston.  
 Bosworth, D., P. Dawkins, and T. Stromback (1996), *The Economics of the Labour Market*, Prentice Hall, New York.

are good background material, with sections relevant to this course. Finally, the Handbook of Labor Economics (North Holland, Amsterdam, various volumes) is generally a good source. However, many of the chapters are relatively technical.