Explaining wages
Specialisation, Discrimination, & Superstars

Labour Economics

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Labour Economics: Part 1

- Simple Equilibrium
  - Labour Demand
  - Labour Supply

- Difference in wages
  - Human Capital
  - Immigrants
  - Hazard Compensation
  - `Superstars` ⟵ `Here`
  - Specialisation
  - Discrimination
  - Unionisation
  - Incentivisation

Economics of Superstars

Definition (Superstar)

A star (as in sports or the movies) who is considered extremely talented, has great public appeal, and can usually command a high salary.
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Fact

Some make into 'stars' and then into 'superstar,' while the others do not.

Explain!

Economics of Superstars

- Perception

Economics of Superstars

- Perception
- Profession

Economics of Superstars

- Perception
- Profession
    - Technology

Economics of Superstars

- Perception
- Profession
  - Technology
  - Need

Economics of Superstars

- Perception
- Profession
  - Technology
  - Need
- Value of time and alternatives for Consumption

Economics of Superstars

- Non-Pop Artists

Economics of Superstars

- Non-Pop Artists
- Producing Giffen goods?

Economics of Superstars

- Non-Pop Artists
- Producing Giffen goods?
  - Maybe...

Economics of Superstars

- Non-Pop Artists
- Producing Giffen goods?
  - Maybe...
  - No, does not really fit

Economics of Specialisation

- Idea as old as Economics is...
- Data from Equilibrium
    - Husband, Wife and Family

Economics of Specialisation

- Two goods to consume
  - Ordinary consumption: C
  - Home-made goods: Z
- Different productivity
  - Husband is more productive in the Labour Market
  - Wife is more productive at Home
- Household production function

Economics of Specialisation

Economics of Discrimination

- Economic judgements based on non-economic factors.
- e.g. different wages for identically skilled people

Discrimination

- Types
  - Negative discrimination
  - Positive discrimination
    - nepotism
- Source
  - Employer d.
  - Employee d.
  - Customer d.

Employer Discrimination

Production function:

$$q = f\left(E_m + E_f\right)$$

Discrimination coefficient:

$$w_m\left(1 + \delta\right) = w_f$$

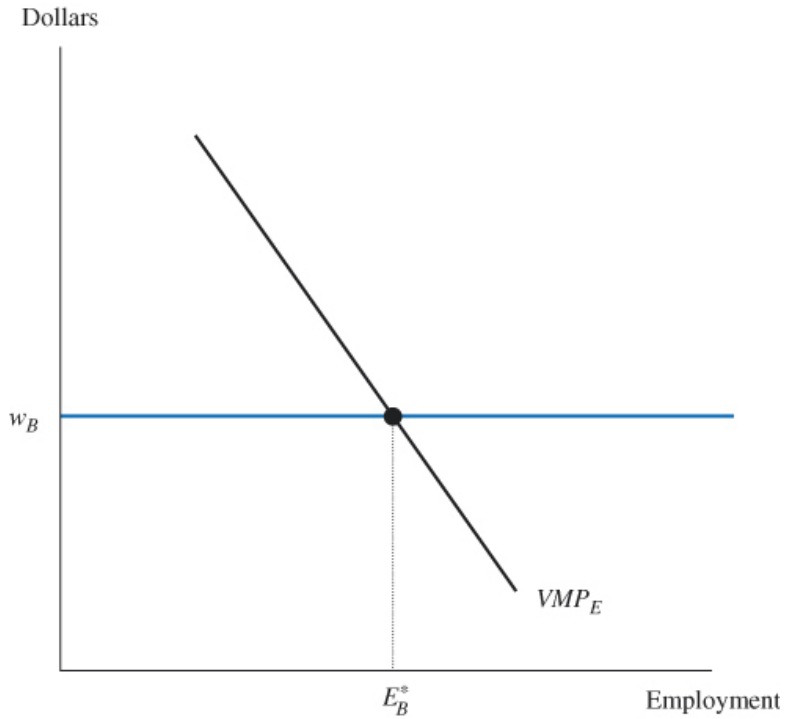
Market:

$$w_m < w_f$$

Employer Discrimination

Non-discriminating emplyer:

$$w_m = VMP_E$$



Employer Discrimination

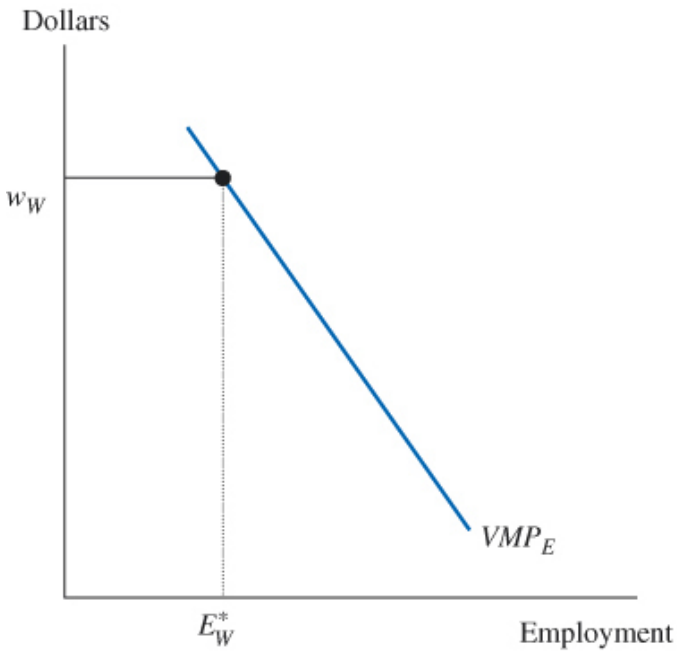
Discriminating emplyer:

- Hire only men if

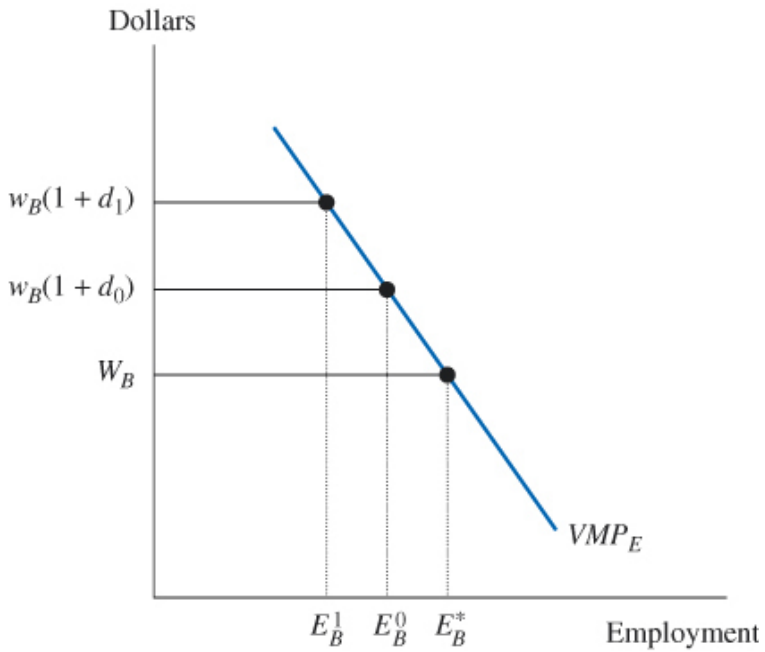
$$w_m (1 + \delta) < w_f$$

- Otherwise, hire only female

Discrimination and Employed

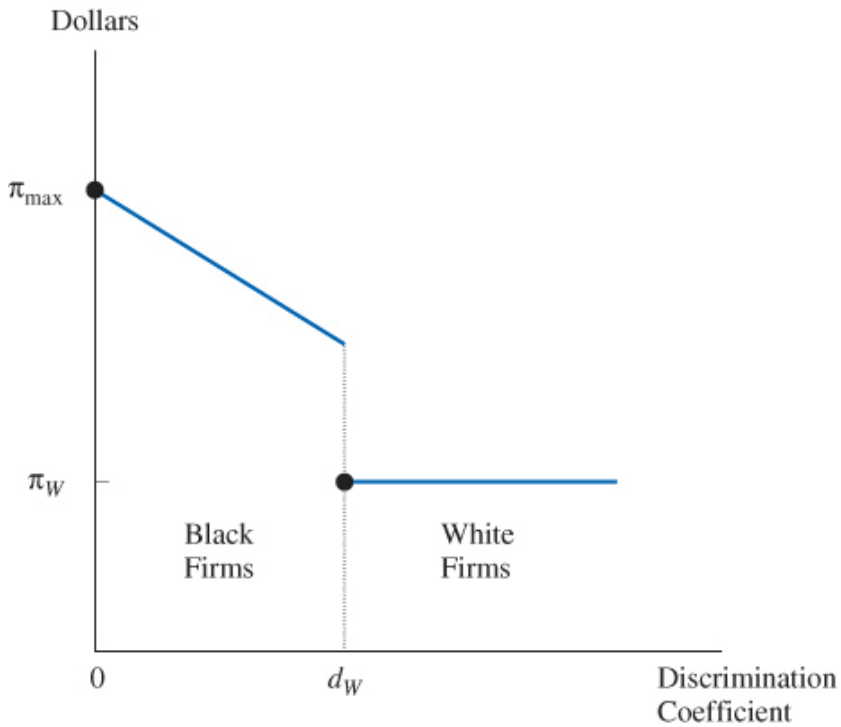


(a) White Firm

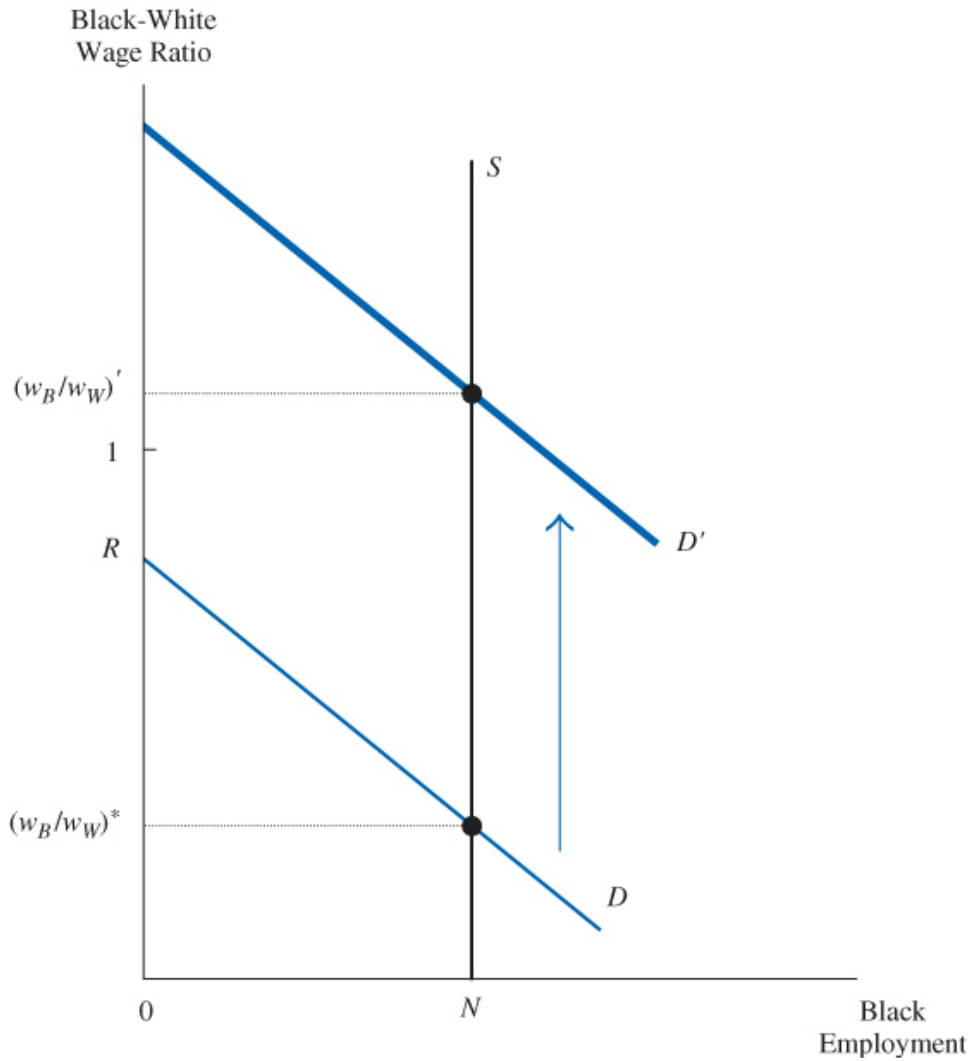


(b) Black Firm

Discrimination and Profits



Discrimination and Labour Market Equilibrium



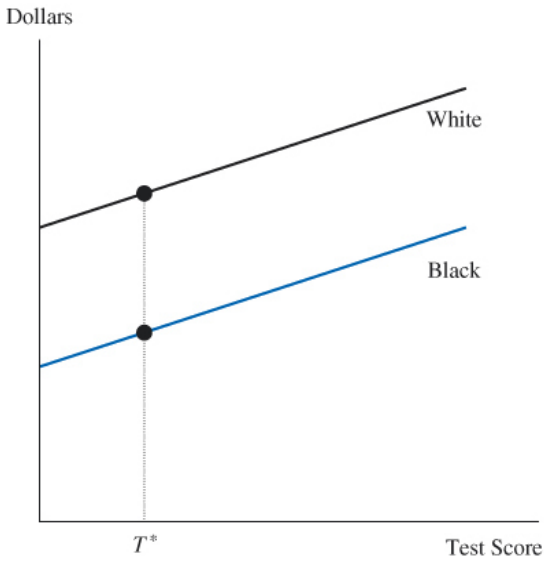
Statistical Discrimination

- Imperfect screening
- Group averaging

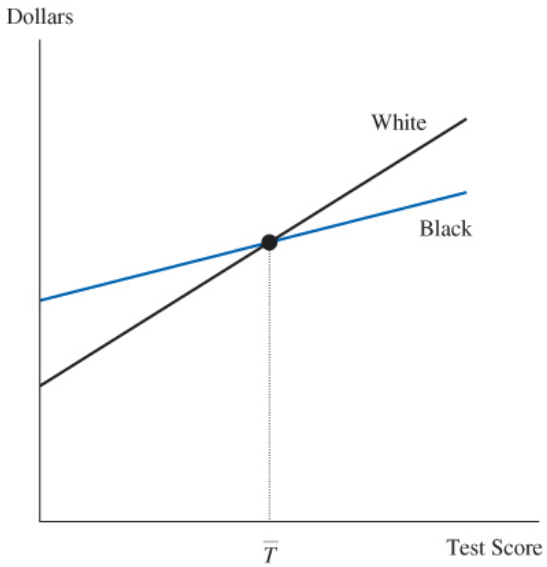
$$w = \alpha T + (1 - \alpha)\, \bar{T}$$

Statistical Discrimination

$$w = \alpha T + (1 - \alpha)\,\bar{T}$$



(*a*) Whites have a higher average score



(*b*) Test is better predictor for white workers

Discrimination and Data: Oaxaca Decomposition

$$\Delta \bar{w} = \bar{w}_m - \bar{w}_f$$

Male:

$$w_m = \alpha_m + \beta_m s_m$$

Female:

$$w_f = \alpha_f + \beta_f s_f$$

$$\Delta \bar{w} = \bar{w}_m - \bar{w}_f = \alpha_m + \beta_m \bar{s}_m - \alpha_f - \beta_f \bar{s}_f$$

$$\pm \beta_m \bar{s}_f$$

$$\Delta w = \underbrace{(\alpha_m - \alpha_f) + (\beta_m - \beta_f)\,\bar{s}_f}_{\text{discrimination}} + \underbrace{\beta_m\,(\bar{s}_m - \bar{s}_f)}_{\textit{objective}}$$