Overview

1. Demand for and Supply of Labor

2. Four Important Labor Market Trends
   a. Over the 20th century, real wages have grown in all industrialized countries.
   b. Since 1970, the growth of real wages has slowed in the United States.
   c. Wage inequality in the United States has increased in recent decades.
   d. In the United States, the number of people with jobs has grown substantially over recent decades.

3. Real wages increase over time primarily because workers grow more productive as time passes.

4. Explaining wage inequality
   a. Increased globalization
   b. Technological Change

5. Unemployment and the unemployment rate

1. Adapting Demand and Supply to the Labor Market
   a. The demand for labor is inversely related to the real wage rate.
   b. The supply of labor is directly related to the real wage rate.
      (1) Firm’s measure real wage using prices of the goods and services they produce.  
      (2) Workers measure real wage using the prices of goods and services they consume.
2. In the United States, output per capita and real compensation per capita have grown substantially since WW II. But starting at around 1975, growth in real compensation slowed while growth in output per hour did not slow.

3. Inequality of wage has grown in since the late 1980’s.
   a. What the data show (.http://www.bls.gov/cps/cpswom2010.pdf)
b. Two Explanations for Rising Wage Inequality.

(1) Globalization lowers wages in industries that import goods and raises wages that export goods after trade is liberalized.

(2) Technological advances raise productivity of skilled workers but not unskilled workers because those advances increase demand for skilled workers and lower demand for unskilled workers.
c. Wage Inequality became more pronounced between 2002 and 2008 in a way that supports the second explanation.

(1) Why is it reasonable to say that the data in the following table document growing wage inequality?

Table 1. National percentile wage growth, 2002–08

<table>
<thead>
<tr>
<th>Percentile wage</th>
<th>Year</th>
<th>Percent change in wage</th>
<th>Adjusted for inflation ¹</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>10th</td>
<td>$14,590</td>
<td>$16,680</td>
<td>15.4</td>
</tr>
<tr>
<td>25th</td>
<td>18,580</td>
<td>21,590</td>
<td>16.2</td>
</tr>
<tr>
<td>50th</td>
<td>27,690</td>
<td>32,390</td>
<td>17.0</td>
</tr>
<tr>
<td>75th</td>
<td>44,140</td>
<td>51,540</td>
<td>18.9</td>
</tr>
<tr>
<td>90th</td>
<td>64,000</td>
<td>70,020</td>
<td>21.8</td>
</tr>
</tbody>
</table>

¹ The inflation rate over the 2002–08 period was 19.7 percent.

(2) Why is it reasonable to say that the data in the following chart supports the “differential effects of technology” explanation for growing wage inequality?

Chart 1. Wages and percent growth in wages, by occupational group, 2002–08
4. The Civilian Labor Force, Employment, and Unemployment

a. The adult civilian population of a developed nation is divided into three groups.
   (1) The employed
   (2) The unemployed are those who are not employed but are actively seeking employment.
   (3) A person is “out of the labor force” if he or she did not work in the past week and did not look for work in the past four weeks.

b. Population, labor force and employment have grown steadily over the post WWII period.

![Population, Labor Force and Employment](chart.png)

c. There is interesting variation in the ratios of labor force to population and employment to population.

![Labor Market Ratios](chart.png)
d. The unemployment rate in the United States rises during recessions.

But the labor force participation rate also tends to fall during recessions.