Review Notes - Introduction

- Market for Labor
  - How do we know a market for labor exists?
  - Labor as an input
    - Q = f (K, L, N, E)
  - Why/how is labor different than other inputs?
  - Factors important in labor markets
    - Work environment
    - Risks
    - Personalities
    - Equity
    - Etc.

- Concepts/Definitions
  - What is labor economics?
    - The study of the workings and the outcomes of labor markets
  - How to study labor markets
    - Normative analysis
    - Positive analysis
    - Economic models and the scientific method
    - Efficiency (is this normative or positive?) – define them all.
      - Total or Economic Efficiency
      - Allocative efficiency and inefficiency
        - MSB and MSC (what are those?)
        - efficiency occurs where?
      - Technological efficiency and inefficiency
      - Other possible goals besides efficiency?
    - Normative analysis – intervene when markets fail (when does that happen?)
      - Lack of or asymmetric information
      - transaction barriers
      - price distortions – taxes, subsidies, etc.
      - transaction costs
      - externalities
      - monopoly/monopsony

            - and so forth
    - Public Policy and Government Intervention
        - When should the government intervene (is this normative?)?
        - How should the government intervene?
            - Intervene using the methods that disrupts markets the least and is therefore more efficient (is this normative?)
            - What if many efficient outcomes exist – which is best?
    - Labor markets
        - What is a labor market?
        - Labor Force?
        - Labor force participation rate?
        - Unemployment rate?
        - Price of labor?
            - Nominal vs. real wage rate

- Demand Defined (what is a derived demand?)
    - definition
    - the law of demand (as w increases => Q_D^L decreases) why?
    - market demand
- Other influences on Demand (besides the wage)
    - the price of related inputs
        - substitutes: as P_s increases => D_L increases and reverse
        - complements: as P_c increases => D_L decreases and reverse
    - the number of demanders (buyers) in a market: as # increases => D_L increases and reverse
    - demand for the output that labor produces => if D for the output labor produces increases then D_L increases also.
    - Etc.
- Change in Demand (D) vs. change in Quantity Demanded (Q_d)

- Supply Defined
    - definition
    - the law of supply (as w increases => Q_S^L increases) why?
    - market supply
- Other influences on Supply (besides the wage)
    - Wages in other labor markets
    - Population

- Labor force participation rates
- Preferences (about labor/leisure tradeoffs)

- Change in Supply (S) vs. change in Quantity Supplied (Q_s)

- Market equilibrium
  - Definitions
    - equilibrium
    - stable equilibrium
  - How does the market attain equilibrium?
- Predictions about equilibrium W and L
  - increase in D => what happens to equilibrium W and L?
  - decrease in D => what happens to equilibrium W and L?
  - increase in S => what happens to equilibrium W and L?
  - decrease in S => what happens to equilibrium W and L?
  - increase in D and increase in S => what happens to equilibrium W and L?
  - increase in D and decrease in S => what happens to equilibrium W and L?
  - decrease in D and increase in S => what happens to equilibrium W and L?
  - decrease in D and decrease in S => what happens to equilibrium W and L?

- Elasticity
  - Definition of 4 different types
    - Wage Elasticity of the Demand for labor
    - Wage Elasticity of the Supply of labor
    - Elasticity of substitution

- Consumer Choice
  - Simple two good model
  - Budget constraint
    - $p_1X_1 + p2X2 <= M$
    - meaning? graphically?
  - Budget Line
    - $p_1X_1 + p2X2 = M$
    - meaning? graphically?
    - intercepts of the BL?
    - slope of the BL?
    - what shifts the BL?
    - opportunity cost of the two goods?

- Preferences
  - define consumption bundle, preferred, and indifferent
  - rationality
    - completeness (what's that?)
    - transitivity (what's that?)
  - indifference curves
    - how are points on, and off, an indifference curve related?
      - two points on the same indifference curve?
      - a point above and a point on an indifference curve?
      - a point below and a point on an indifference curve?
    - what do they look like?
    - how many are there?
    - in which direction is the consumer better off?
    - can indifference curves cross?
    - what do different examples of indifference curves look like?
  - utility
    - what does utility measure?
    - what happens to utility as we move to a higher indifference curve?
    - assume individuals want to maximize utility given prices, income, and preferences
    - what is marginal utility?
    - how do you derive a demand curve, graphically, from indifference curve analysis?

- Statistical Tools
  - What is a hypothesis? How do we test it?
  - How do we test whether two means are different?
    - Focus on definitions of terms - variance, standard deviation, standard error, normal distribution, etc.
    - What is the general idea of how one would test whether the means of two groups are different? What is statistical significance?
  - Regression analysis
    - Define regression analysis, multiple regression analysis, and Ordinary Least Squares (OLS) regression.
    - What is the basic idea behind regression analysis, multiple regression analysis?
    - How do you use/interpret the coefficient estimates from regression analysis?
    - How do you test the coefficients - when are they statistically significant?
