

Look for the answers to these questions:

- How do wages compensate for differences in job characteristics?
- Why do people with more education earn higher wages?
- Why are wages sometimes above their equilibrium values?
- Why is it difficult to measure discrimination?
- When might the market solve the problem of discrimination? When might it not?

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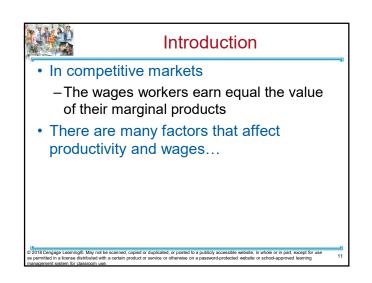
U.S. Median Weekly Earnings, Selected Occupations, 2015								
Occupation Both sexes Men Women gap								
Chief executives	\$2,041	\$2,251	\$1,836	22.60%				
Lawyers	1886	1914	1717	11.47%				
Physicians & surgeons	1824	1915	1533	24.92%				
Architects & engineers	1424	1452	1257	15.51%				
Management	1351	1486	1139	30.47%				
Registered nurses	1116	1222	1089	12.21%				
Postsecondary teachers	1258	1405	1144	22.81%				
Counselors	904	908	902	0.67%				
Retail salespersons	590	694	494	40.49%				
Waiters/waitresses	451	501	411	21.90%				
All occupations	\$809	\$895	\$726	23.28%				
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T.W. Average Monthly Earnings, Selected Occupations, 2017/9							
Occupation	# of M	# of F	Salary (M)	Salary (F)	Gender Gap		
銀行業	60,065	88,744	\$106,376	\$92,882	14.5%		
電子零組件製造業	292,967	309,526	64,036	45,734	40.0%		
電腦電子產品光學製品製造	113,537	97,013	71,505	41,952	70.4%		
電力供應業	21,849	3,293	75,814	65,929	15.0%		
金融及保險業	147,684	234,962	84,503	77,654	8.8%		
專業科學及技術服務業	136,075	124,013	61,364	49,453	24.1%		
醫療保健服務業	71,146	286,977	96,041	52,665	82.4%		
航空運輸業	10,543	13,603	107,644	55,957	92.4%		
法律服務業	3,067	7,270	55,538	47,154	17.8%		
會計服務業	8,996	15,181	62,379	47,397	31.6%		
廣告業及市場研究業	15,536	27,926	48,843	50,122	-2.6%		
保全及私家偵探服務業	81,161	12,884	32,027	38,144	-16.0%		
美髮及美容美體業	1,468	26,215	36,771	26,760	37.4%		
營造業	386,053	76,328	42,637	31,506	35.3%		
				07.000	44 504		

T.W. Average Monthly Earnings, Selected Occupations, 2017/9							
Occupation	# of Men	# of Women	Men Salary	Women Salary			
電力供應業	21,849	3,293	\$75,814	\$65,929			
氣體燃料供應業	4,132	1,300	64,414	50,950			
用水供應業	4,284	1,784	76,576	77,397			
鐵路大衆捷運運輸業	20,273	5,368	53,895	45,291			
公共汽車客運業	20,607	2,567	47,950	31,925			
其他汽車客運業	8,905	2,514	27,022	24,510			
汽車貨運業	59,657	17,275	36,210	31,376			
航空運輸業	10,543	13,603	107,644	55,957			
郵政業	17,798	8,529	53,333	50,991			
快遞服務業	7,645	4,401	55,496	53,803			

T.W. Average Monthly Earnings, Selected Occupations, 2017/9								
Occupation	# of Men	# of Women	Men Salary	Women Salary				
銀行業	60,065	88,744	\$106,376	\$92,882				
人身保險業	36,971	77,243	55,944	67,452				
財產保險業	8,276	8,231	56,025	44,021				
其他保險退休基金輔助業	208	265	95,231	77,001				
證券期貨及其他金融業	20,383	29,678	90,917	75,755				
不動產開發業	24,104	20,808	54,123	48,787				
不動產經營相關服務業	32,145	39,324	29,405	37,214				
企業總管理機構及管顧業	40,425	43,744	57,946	52,680				
專門設計服務業	21,180	3,729	68,441	53,430				
4	行政院主計	總處受僱員	工薪資調查統	計 2017/09				

Gender \	Nage	Ga	n	in	Т	้ว	I\\/:2	n				
	労動部統計處		NT.		/高戰		IVVC 專科		大學	18-1	EWE	
	工業及服務業		275		583	0		ø	531		463	
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職	電力及燃氣供應業	ĕ	144	ĕ	1054	ĕ	618	ē	254	ĕ	301	
新	用水供惠及污染整治業	0	140	ø	543	ē	871	ø	950		0	
鲜	爱造業		472		1109		1004		1242	8	485	
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理	批發及零售業	00	81	8	557	0	544	6	508	0	432	
「「」	運輸及倉儲業	θ	232	0	1191	0	1234	0	793	0	299	
薪	住宿及餐飲業	00	288	8	344	0	255	9	138		0	
	資訊及通訊傳播樂		103	8	492	0	216	9	304	8	486	
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$\widehat{=}$	不動產業	9	643	Ø	-5	0	534	9	799	Ø	-162	
「元月	專業、科學及技術服務業	0	645	0	767	0	571	0	476	0	829	
8	支援服務業	9	443	8	246	0	485	0	551	8	467	
	教商服務業	Ŧ	0	Đ	486	0	913	0	396	-	0	
Nº / 1	醫療保健服務樂	9	207	8	201	0	369	9	773	8	247	
4	▶ 藝術、娛樂及休閒服務業		84	0	219	0	178	0	375	-	0	
T^	其他服務業	9	290	8	950	8	1112	8	848	9	643	
2019/12/11	F	arnin	øs ar	nd D	iscrin	nina	ation		los	eph	Tao-yi	Wang





Ability, Effort, and Chance

- · Ability, effort, and chance
 - -Are difficult to measure
 - -So it is hard to quantify their effects on wages
 - -They are probably important, though, since easily measurable characteristics (education, age, etc.) account for less than half of the variation in wages in our economy

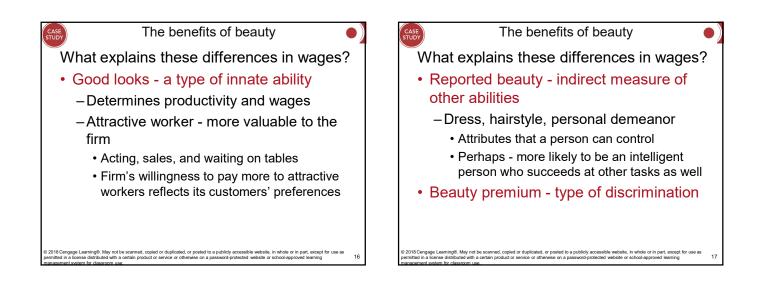
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The Benefits of Beauty

Research by Hamermesh and Biddle:

- People deemed more attractive than average earn 5% more than people of average looks
- -Average-looking people earn 5-10% more than below-average looking people.





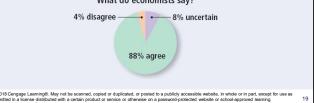
For Taiwanese female college graduates, Mei-Hsuan Chen (2009) shows that:

- Height/weight related to self-confidence

 in college: Being higher and skinnier makes you more confident about yourself
- 2. Self-confidence (during college) increases initial salary by NT\$1,1xx, while
 - height increases it by NT\$5x/cm and
 - weight decreases it by NT\$5x/kg
- Consistent with reported beauty as "indirect measure of other abilities"
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ASK THE EXPERTS Inequality and Skills

"One of the leading reasons for rising U.S. income inequality over the past three decades is that technological change has affected workers with some skill sets differently than others."



The Superstar Phenomenon

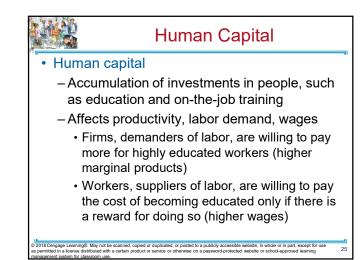
- Superstars in their field (F4/Chih-Ling Lin)
 - Great public appeal and astronomical incomes
- Superstars arise in markets where
 - Every customer in the market wants the good supplied by the best producer
 - The good is produced with a technology that allows the best producer to supply every customer at low cost

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Weekly Earnings of Full-Time Employed Persons Age 25+ by Education, 2017:Q3

Educational attainment	Median weekly earnings
Less than H.S.	\$ 522
H.S. diploma	714
Some college or Associate degree	801
Bachelor's degree only	1,164
Advanced degree	1,470

Weekly Earnings of Full-Time Employed Persons								
Age 25+ by Education, 2017:Q3 (TAIWAN 2016)								
Educational attainment Median weekly earnings TAIWAN median (US\$1=NT\$30)								
P. S. and below	\$ 522	\$ 174						
Mid. school (vocal.)	φ 522	248						
H.S. diploma	714 275							
Associate/Some college	801	355						
Bachelor's degree only	Bachelor's degree only 1,164 321							
Advanced degree 1,470 515								
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The Increasing Value of Skills The earnings gap between college-educated and non-college-educated workers has widened in recent decades.							
	Percentage difference in annual earnings for college graduates vs. high school diploma						
		1974	2014				
	Men	42%	81%				
	Women 35% 71%						
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The Increasing Value of Skills The earnings gap between college-educated and non-college-educated workers has widened in recent decades.						
Percentage difference in annual earnings for advanced degrees in Taiwan (2017)						
	Advanced	Bachelor				
vs. High School	87%	17%				
vs. Junior High	108%	29%				

CASE

The increasing value of skills

Increase in international trade

- Domestic demand for skilled labor rises
- Domestic demand for unskilled labor falls
- Skill-biased technological change; changes in technology

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- Raise the demand for skilled workers who can use the new machines
- Reduce the demand for the unskilled workers whose jobs are replaced by the computers

Active Learning 1

Discussion question

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Suppose you were offered this choice:

- A. Spend 4 years studying at the world's best university, but must keep your attendance there a secret.
- B. Get an official degree from the world's best university, but cannot actually study there.
- Which do you think would enhance your future earnings more?

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The Signaling Theory of Education

- Firms use education level to sort between high-ability and low-ability workers
 - The difficulty of earning a college degree demonstrates to prospective employers that college graduates are highly capable
 - Yet, the education itself has no impact on productivity or skills
- Policy implication
 - Increasing general educational attainment would not affect wages

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Screening (篩選機制)

- 1. A Set of Rules
 - Different cell phone plans
- 2. Individuals Optimize
- Which saves me the most money?
- 3. You React to Others Optimizing
 - Want a free iPhone X? Get a new line!
- 4. What Should Aggregate Data Look Like?

Earnings and Discrimination

 Separating equilibrium says ♠♣ choose plan A, while ♡♦ choose plan B



Earnings and Discrimination

Applications of Screening (篩選機制的應用)

- Screening Devices designed to Differentiate
 Let some choose Plan A, others Plan B
- Examples:
- Marketing Campaigns Target Specific Groups
 - Student/NP plans of cell phone companies
 BOGO, 2nd pair 50% off, 2nd bottle 41% off...
- HR Screen CVs Based on Certain Criteria
- Ivy League, GPA, extra-curriculum activities, GIS

Earnings and Discrimination

Students try their best to satisfy those criteria

<u>Signaling (認證標籤)</u>

- 1. Expected Salary if you graduate from:
- ▶ ♡♦: National iDaiwan University: 35k/mo
- ▶ ♠♣: Private Salty Chicken University: 22k/mo
- 2. If you go to graduate school at NiDU:
- Expected salary 40k/mo, but need to repay student loans @ 5k/mo
- Would you (advise your friend or your son to) apply for NiDU graduate school? Why?

Earnings and Discrir

Signaling (認證標籤)

- 1. A Set of Rules
- Credentialism on the job market (and society)
- 2. Individuals Optimize
- Which choice is better for my job market?
- 3. You React to Others Optimizing
- ➤ Would salary be the same if everyone has a MA?
- 4. What Should Aggregate Data Look Like?
- Pooling equilibrium says all should get a MA, though NiDU undergrads (♡◊) are indifferent

Earnings and Discrimination

Signaling (認證標籤)

- 5. Does Empirical Data Match the Theory?
 - How many $\mathbf{\Phi} \mathbf{\Phi} (\mathbf{\nabla} \mathbf{O})$ really applied grad school?
- 6. Can Individual Differences be Explained?
- If you are \heartsuit , what were you thinking?
- 7. How Can the Institution (Rules) Improve?
 - What would you do as an employer?
 - As the Minister of Education?
- 8. Where Did this Institution Come From?
- The Imperial Examination System (科舉制度)?
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Applications of Signaling (認證標籤的應用)

- ▶ Signals Let You Stand Out (鶴立雞群)
- Convince others you (your products) are better
- Examples:
- Consumers Demand Certificate of Origin
 Credentials, Recommendation Letters, MIT, ISO
- Demonstrate Qualification in Job Interviews
 - Hire me, because...
 - Should I go for MBA immediately after college?

Earnings and Discrimination

What Course Are You Taking?

- Your GPA serves two purposes:
 - Signal you are a smart and responsible student
 - Reflect the knowledge and abilities you have accumulated in college
- But what does sweet and cheap GE indicate?
- What if I get a C in a tough course? Isn't that worse than taking easy sweet and cheap ones?
- ▶ Next year, should you take the road to heaven (天堂路線) or the deadly triangle (必死鐵三角)? ▶ (cf. NTUCourse on ptt)

Earnings and Discrimination

Some Personal Recommendations

- In your 2nd year, take:
- ▶ 古慧雯's Intermediate Micro & 駱明慶's Econometrics
- In your 3rd and 4th year, take:
 - ▶ 吳聰敏's 市場與台灣經濟發展 (Capstone Course on "Economist", Presentation and Writing)
 - ▶ 馮勃翰's 賽局理論與策略思考 Game Theory & Strategic Thinking (Capstone Course on Business Strategy)
 - English Composition (2 yr) or other languages
 - ▶ Apply for BESAP, SAPFS (人社學術人才跨國培育計畫)
- Thinking about Graduate School?
- Try out 1-2 graduate Micro/Macro/Econometric Theory or Master-level electives (駱明慶,陳虹如,李怡庭,...)
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Some Personal Recommendations

- Find your interest by taking electives broadly
- ▶ Try <u>Summer</u> interns (industry) or RAs (academics)
- Then focus on one field to sharpen your skills
- ▶ Use tough core courses required by other majors to establish your secret weapon (吃飯的傢伙)
- Develop General Skills as well:
 - ▶ Logical Reasoning by taking English Composition Ⅱ (英文作文二) or Advanced Calculus (分析導論)
 - Communication (writing and oral presentation)
- Programming Skills (C++/Python/Matlab/R,...) /12/11 Earnings and Discrimination Joseph Tao-vi Wang

Some Personal Recommendations

- Interested in micro-economics?
 - Take Calculus 4: With Applications to Economics
 - Master Intermediate Micro and take Micro Theory I
- Like the experiments I run? Signup for TASSEL
 - Take my class in Experimental Economics
 - Start to do research with me now!
- If you want to apply for graduate school in Econ:
 - Take Advanced Calculus (2nd yr), Linear Algebra (1st yr); then Advanced Statistical Inference (grad.)@NTU Math
 - ► Take 2 years of English Composition (I+II)@NTU FLLD
 - Start to do research now!

Above-Equilibrium Wages

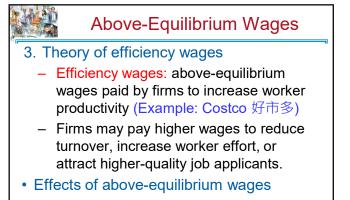
1. Minimum-wage laws

 The minimum wage may exceed the equilibrium wage of the least-skilled and experienced workers

2. Market power of labor unions

- Union: worker association that bargains with employers over wages and working conditions
 - Higher wages; most union workers earn 10– 20% more than similar nonunion workers

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-Surplus of labor (unemployment)

Active Learning 2 Explaining wage differentials
 In each case, identify which worker would earn more and use the concepts in this chapter to explain why.
 A. The world's best physical therapist (who?) or the world's best writer (You Know Who!!)
 B. A trucker who hauls produce or a trucker who hauls hazardous waste
 C. A graduate of NTLL (合大) or an equally intelligent

- C. A graduate of NTU (台大) or an equally intelligent & capable graduate of NTUST (天大地大...)
- D. Someone who graduated from NTU (台大) with a 3.7 GPA or someone who graduated from the same university with a 2.4 GPA

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Active Learning 2

Answers

- A. The best physical therapist on the planet (who?) or the best writer on the planet (You Know Who!!)
 - <u>The superstar phenomenon</u>:
 The best writer can service many more customers than the best physical therapist.
- B. A trucker who hauls produce or a trucker who hauls hazardous waste from nuclear power plants
 - <u>Compensating differentials</u>: The hazardous waste hauler earns more to compensate for the higher risks.

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Active Learning 2 Answers C. A graduate of NTU (台大) or an equally intelligent & capable graduate of NTUST (天大地大...) <u>The signaling theory of education</u>: Employers assume the NTU graduate has more ability than the NTUST graduate D. Someone who graduated from NTU (台大) with a 3.7 GPA, or someone who graduated from the same university with a 2.4 GPA <u>The human capital theory of education</u>: A higher GPA reflects greater learning, which leads to higher productivity and wages.

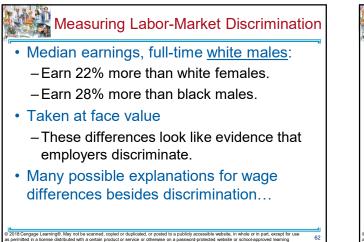
Economics of Discrimination

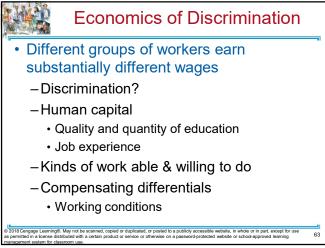
Discrimination

- Offering of different opportunities to similar individuals who differ only by
 - Race, ethnic group, sex, age, or other personal characteristics

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Gender Discrimination of Taiwan								
• 什麼都漲,就是	• 什麼都漲 · 就是薪水不漲? More true from men!							
- Narrowing wag	je gap	btw Taiwa	inese fema	le vs.				
male workers.	male workers. Wage Gender Gap of Taiwan							
TOTAL COMMENT	(Aver	age Disposat	pie income in	NTD)				
11 mar 22 /		Male	Female	Diff.				
	2017	\$ 594,336	\$451,563	31.6%				
	2013	575,000	435,552	32%				
	2007	580,712	430,339	35%				
	1994 503,473 320,960 57%							
	1976	78,680	40,775	93%				
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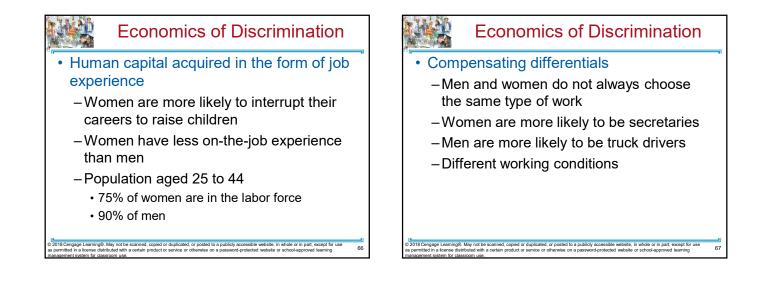
Economics of Discrimination Differences in educational attainment 2014, men age 25 and older 32% of the white population had college degree 20% of the black population

- -2014, women age 25 and older
 - 32% of the white population had college degree

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24% of the black population

Economics of Discrimination Quality of public schools As measured by: expenditure, class size, and so on Historically: public schools in predominantly black areas have been of lower quality than public schools in predominantly white areas There may well be discrimination in access to education, but this problem occurs long before workers enter the labor force.





- Half of the résumés had names that were common in the African American community

 Lakisha Washington or Jamal Jones
- The other half had names that were more common among the white population

 Emily Walsh or Greg Baker

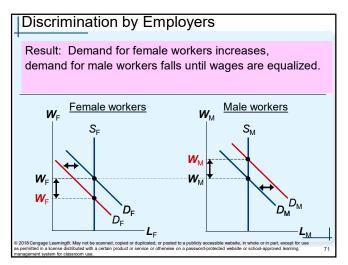
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 Natural antidote to employer discrimination: profit motive

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Discrimination by Consumers

- Discrimination by consumers may result in discriminatory wage differentials.
 - Suppose firms care only about maximizing profits, but customers prefer being served by whites
 - Then firms have an incentive to hire white workers, even if non-whites are willing to work for lower wages

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Discrimination by Governments

- Some government policies mandate discriminatory practices.
- -Apartheid in South Africa before 1994
- Early 20th century U.S. laws requiring segregation in buses and streetcars
- Such policies prevent the market from correcting discriminatory wage differentials

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Conclusion

- In competitive markets
 - Workers are paid a wage that equals the value of their marginal products
 - Many factors affect the value of marginal products and equilibrium wages
- The profit motive can correct
 - -Discrimination by employers,
 - But not discrimination by customers or discriminatory policies of governments

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Summary

- Workers earn different wages for many reasons:
 - Wage differentials play a role compensating workers for job attributes
 - Workers in hard, unpleasant jobs are paid more than workers in easy, pleasant jobs.
 - Workers with more human capital are paid more than workers with less human capital
 - Years of education, experience, and job characteristics
- The unexplained variation in earnings is largely attributable to natural ability, effort, and chance.
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Summary

- Signaling theory
 - More educated workers earn higher wages not because education raises productivity but because workers with high natural ability use education as a way to signal their high ability to employers
 - So increasing the educational attainment of all workers would not raise the overall level of wages
- Three explanations of above-equilibrium wages
 Minimum-wage laws, unions, efficiency wages

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Summary

- Some differences in earnings are attributable to discrimination based on race, sex, or other factors.
- Competitive markets tend to limit the impact of discrimination on wages
 - Nondiscriminatory firms will be more profitable than discriminatory firms.
- Discrimination persists in competitive markets
 - If customers are willing to pay more to discriminatory firms or if the government passes laws requiring firms to discriminate

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Chapter 19: Earnings & Discrimination

- Benchmark (Ch.18): W=VMPL
- Other reasons for wage differentials:
 - > Job Characteristics: Difficulty, Risk, Superstar
- ▶ Personal Traits: Ability, Effort, Chance, etc.
- Education: Human Capital vs. Signaling
- Discrimination (and possible cures)
- Homework: Mankiw, Ch.19, Problem 1, 6-8

Earnings and Discrimination

Chapter 19: Earnings & Discrimination

Challenge Questions (Past Finals)

- > 2007 Part 2
- > 2008 Part A
- > 2012 Essay C
- ▶ 2014 Essay C1-2
- > 2016 Essay D
- > 2018 Essay A1-5

- 對一最後通牒談判 (Ultimatum Game) ▶ Form groups of 3. Two group are paired

- > 三人一組, 各組兩兩配對。配對的兩組有十張彩券
- Each pair has 10 tokens: one group is the Proposer, the other the Respondent.
 - ▶ 一組為面試官,負責提議如何分配十張彩券
- Proposers decide amount to give Respondents
 可能的提議有10-0, 9-1, 8-2, 7-3, 6-4, 5-5,...
- Respondents can either accept the split, or reject so that both get nothing
 - ▶ 另一組為應徵者只能回覆接受與否:如果接受,則按照該 提議分配/如果不接受,則兩人都得到零張彩券

Earnings and Discrimination

9/12/11