**EQUILIBRIUM AND IMPLICATIONS Ch. 5)**

**BRIEF COMMENTS ON:**

A. Cobweb model: p. 189 (relevant where supply adjustment takes time)

B. Public sector: what’s maximized if there’s no profit motive? (omitted in 3rd edition)

Added material on immigration (to be discussed under human capital) and monopsony: later added in response to Card and Kruger p. 196

**DEVELOPED DISCUSSION ON:**

E. Monopsony
F. Minimum wages

**MONOPSONY**

Until recently one of those questions “settled long ago.”

**THE THEORY**

The monopsonist hires labor where the marginal revenue = marginal cost; \( l_1 \) and pays a wage of \( w_1 \); this wage is less than labor's marginal product.
Also note, that the wage could be increased to $w_2$ without suffering any loss of employment--and up to $w_2$ employment would increase.

These conclusions are similar for results in monopolistic exploitation: $W < MP$, and at existing wage, an apparent excess demand for labor.

**Past consensus: model might apply to the “company town”, but not to minimum wages, since the latter were national in scope—i.e. monopsony may be a local problem, but not a national market phenomenon.**

**Empirical Evidence**

Early study (1962) by Bunting, looking at 1774 labor markets in 1947; asking the question, what percentage of labor markets existed where a few employers dominated (again, a situation where empirical evidence of long standing seems adequate, once the issue seems to be "settled.")

1, 4 and 10 firms employing over 50% of the market…numbers turn out to be trivial---0.1-0.6; 0.3-3.7, and 0.9-9.6 percent of the labor force respectively.

More recent attention (1970-80s) to specialized markets, with:
1) concentration of owners and,
2) workers with a fairly unique skill.

- ➔Sports, especially prior to Curt Flood, etc…
  (can be overcome with well defined bargaining, and knowledge of specific productivity; see Borjas’s discussion on pp. 191-93, and we return to this issue w/human capital)

- ➔Teachers; WAGE = F(number of districts, size of district, etc)

- ➔Newspaper reporters; WAGE = F(number of papers, etc)

- ➔Nurses; WAGE = F(% of nurses in hospitals, % in largest hospitals, etc)

- ➔music and the arts ???????

- ➔and only very recently, beyond--see Borjas, p. 196 ff
MINIMUM WAGES (A VERY OLD/NEW ISSUE)

my dissertation, several generations past

SYMPOSIUM REFERENCES IN READER

Card and Kruger; a discussion of some of the issues raised;

In particular, the notion of “publication bias,” where only studies that are consistent with received wisdom every see the light of day…and since they must be correct (i.e., they confirm again our beliefs) one doesn’t look too closely at the quality of the analysis…(Card and Kruger, and comments from Finis Welch in reader)