General Level of Wages

* Role of productivity
* Real wages and productivity
  + Plentiful capital
  + Abundant natural resources
  + Advanced technology
  + Labor quality
  + Other factors
    - Management
    - Business, social, and political environment
    - Size of domestic market = mass production
    - Free-trade aggreements
* Long-run trend of real wages

Purely Competitive Labor Market and Purely Competitive Product Market

* Characteristics
* Market demand for labor (MRP)
* Supply of labor (MRC)
* Labor market equilibrium (MRP = MRC)
* Key graph

Purely Competitive Labor Market and Purely Imperfectly Competitive Product Market

* Characteristics
* Market demand for labor (MRP)
* Supply of labor (MRC)
* Labor market equilibrium (MRP = MRC)
* How does the profit maximizing quantity compare with the competitive quantity (alloc. Efficient)? VMP = MRC

Monopsony Model

* Characteristics
* Upsloping labor supply curve (MRC)
* MRC is higher than the wage rate (MRC is above the labor D curve)
* Equilibrium wage and employment (MRP = MRC)
* How does the profit maximizing quantity compare with the competitive quantity (alloc. Efficient)? VMP = MRC
* Examples of Monopsony Power

Three Union Models

* Demand-Enhancement Model
* Exclusive or Craft union Model
* Inclusive or Industrial Union Model
* Wage increases and job loss
* How does the profit maximizing quantity compare with the competitive quantity (alloc. Efficient)?

Bilateral Monopoly model

* Indeterminate outcome
* Desirability: How does the profit maximizing quantity compare with the competitive quantity (alloc. Efficient)? VMP = MRC

Minimum Wage Controversy

* Case against the minimum wage
* Case for the minimum wage
* Evidence and conclusions

Wage Differentials – Why do wages differ?:

* Different MRPs
* Noncompeting Groups
  + Ability
  + Education and training
  + Compensating differences
* Market imperfections
  + Lack of job information
  + Geographic immobility
  + Unions and government restraints
  + Discrimination

Pay for Performance

* The Principal-Agent problem
* Principal
* agent
* Shirking – ways to reduce (incentive pay plans):
  + Piece rates
  + Commissions or royalties
  + Bonuses, stock options, and profit sharing
  + Efficiency wages
* Negative side effects

Are CEOs Overpaid?

* No
* Yes