

Jean Monnet Module

Labour Economics in an European Perspective

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Content of the module

- Labour Markets: how they work (theoretical models)
- European Labour Markets: their working and their main policies (data and comparative perspective)
- Several specific issues that are crucial in European Labour Markets

Approach used in the module

- In the study of the module we will follow the following approach:
- Strong theoretical and analytical foundation.
- Reference to empirical facts: data and comparison of European countries.
- Econometrical analysis of some key issues.
- A specific part of the course (Brunetti) will deal with econometrical techniques used in labour analysis (and will require previous knowledge of econometrics)

Teaching Material

- All you need to study will be present on the course website.
- To study for the exam the material we provide (slides, notes and articles) will be enough.
- For consultation you can use the following textbooks:
 - Cahuc, Carcillo and Zylberg, 2014, *Labor Economics*
 - Borjas, 2016, *Labor Economics*

Course Program

- 1. The classical theory of labour markets: labour supply and demand; wage and employment. (Corsini)
- 2. Job search theory at the micro and macro level. (Corsini)
- 3. European Labour policies (Corsini)
- 4. Integration, mobility and migration in EU (Corsini-Parenti)

- 5. The evolution of EU labour market. (Bryson)

- 6. Empirical Labour Economics: statistical methods for the evaluation of impact of labour policies. (Brunetti)

- 7. Wage earnings and inequality in Europe (Fiaschi).

- 8. Wage Bargaining and Economic Outcomes. (Meccheri)

Labour market and European Labour Market

- In the study of economics, labour markets have always received great attention
- This is mostly due to the fact:
 - Key aspects of people life depends on the outcome of labour income (job and wages!)
 - Almost all economical activities are affected by the working of the labour market
- The European dimension of labour markets has not always received great attention. This is one of the reasons this course exist.

Population, Employment and Unemployment

- Working age population is made of all individuals in an age fit to be working (usually 15-64 years old)
- Suppose that the amount of working-age population in an area (a single country or Europe) is N
- The working-age population can be divided in three categories:
 - Those that are working, the **Employed** (E)
 - Those that does not have a job but are looking for one, the **Unemployed** (U)
 - Those that do not wish to work or that are not looking for a job, they are **Out of the Labour Force** (O)

Population, Employment and Unemployment

- Given the previous definitions, we have
- $N = E + U + O$

- The **Labour force** (L) is given by
- $L = E + U$

- *That is, the labour force are made by those that are employed or are searching for a job.*

Unemployment, Employment and Participation Rates

- The **Unemployment Rate** u is the ratio (the share) of workers that have no job and are looking for one to the labour force.
- $u = U/L = U/(E+U)$
- The **Employment Rate** e is the ratio of workers that are employed to the labour force.
- $e = E/L = E/(E+U)$
- The **Participation Rate** p is the ratio of labour force to the working age population
- $p = L/N$

Individuals out of the labour force

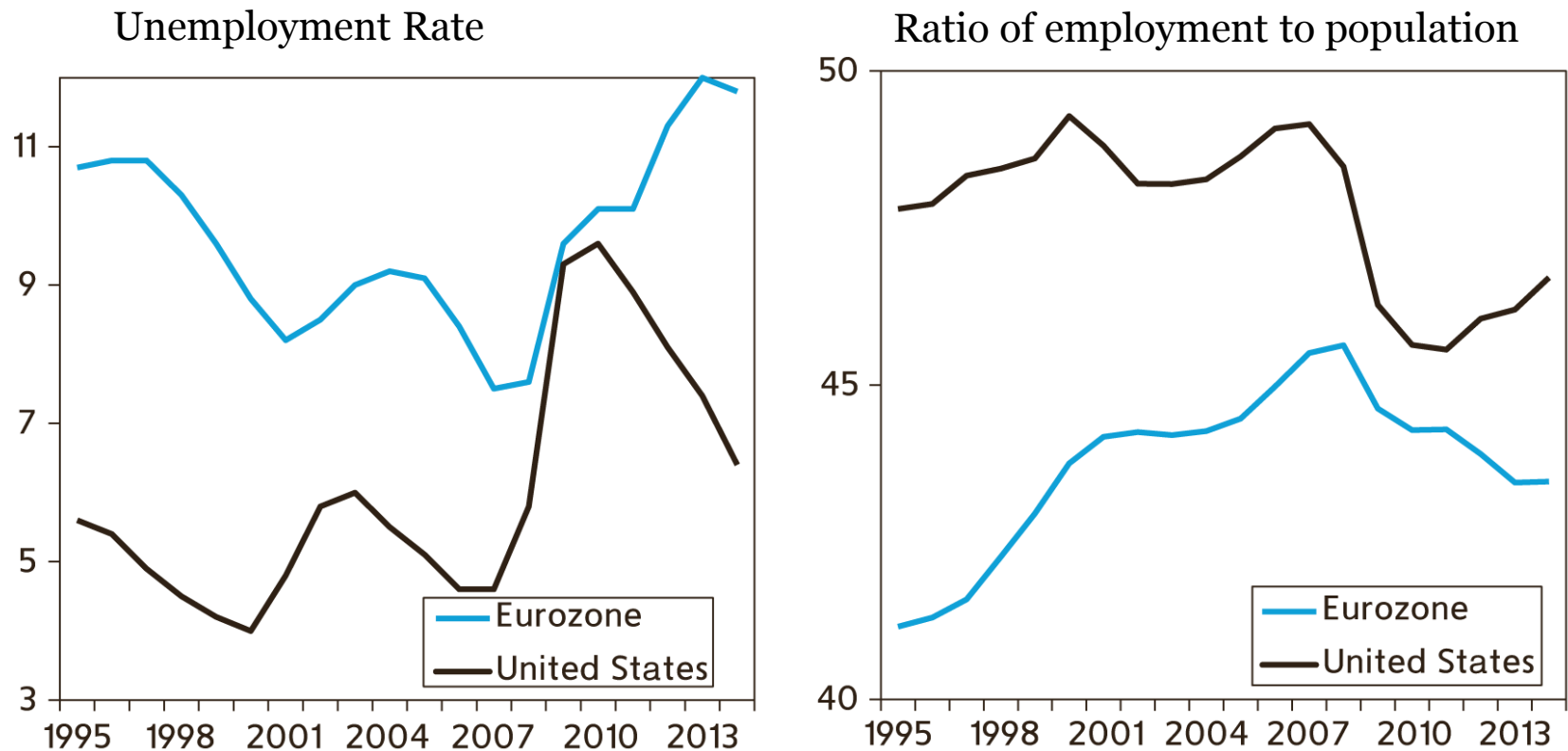
- Individuals can choose to stay out of the labour force (i.e. not to look for a job) for several reasons:
 - *Education*
 - *Household care (and child care)*
 - *Rich and rentiers*
 - *Disabilities or permanent illness*
 - *Discouraged workers*

Some Facts on European Labour Markets

- We will now presents an overview of recent trends in labour markets in terms of its key variables.
- We will try to present data on different countries and on the overall EU situation

Employment and Unemployment in the EU

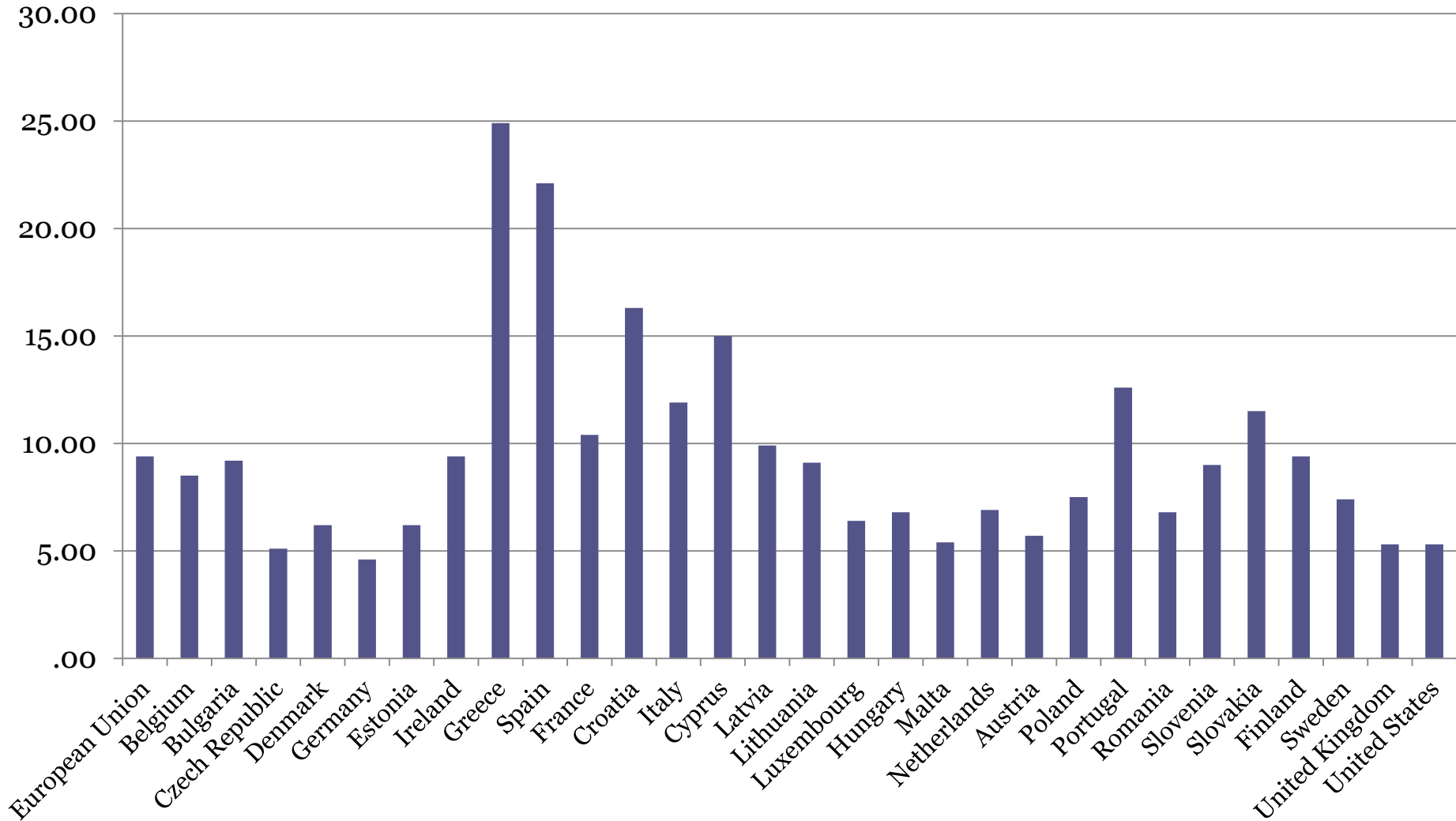
Figure 8.1 An EU–US comparison, 1995–2014



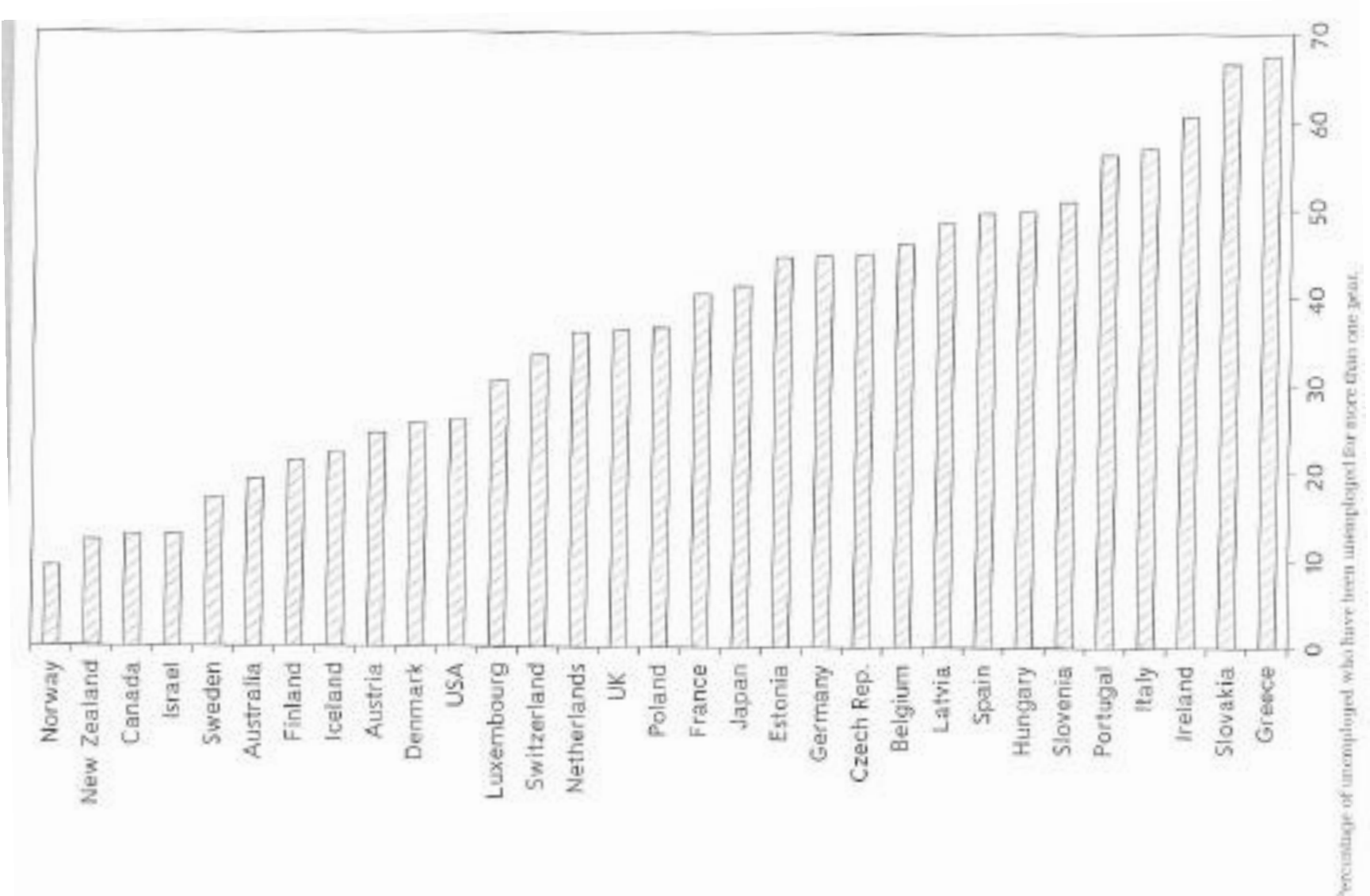
Note: Eurozone includes the 18 member countries in 2014.

Source: AMECO, European Commission

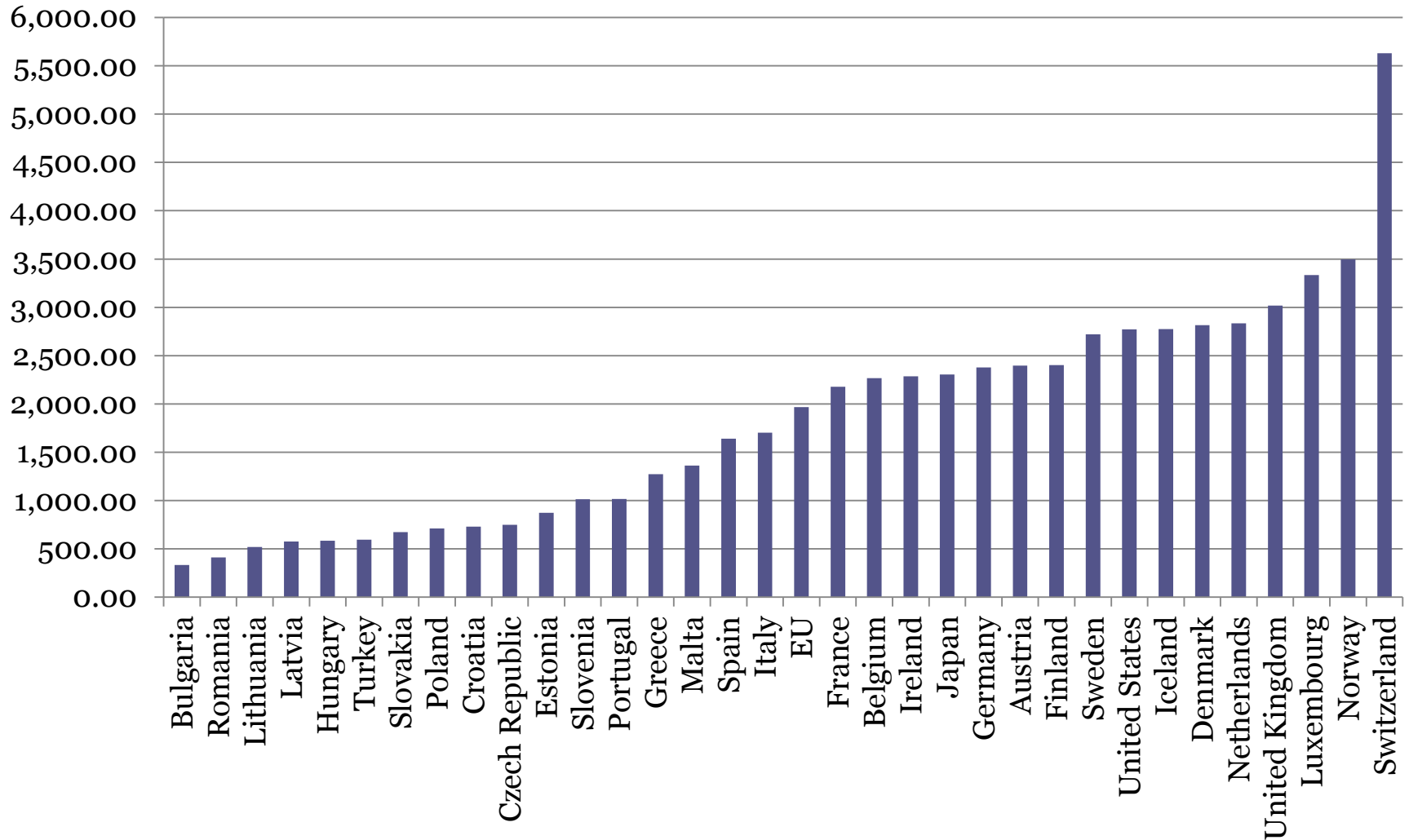
Unemployment Rate in European Countries (2015)



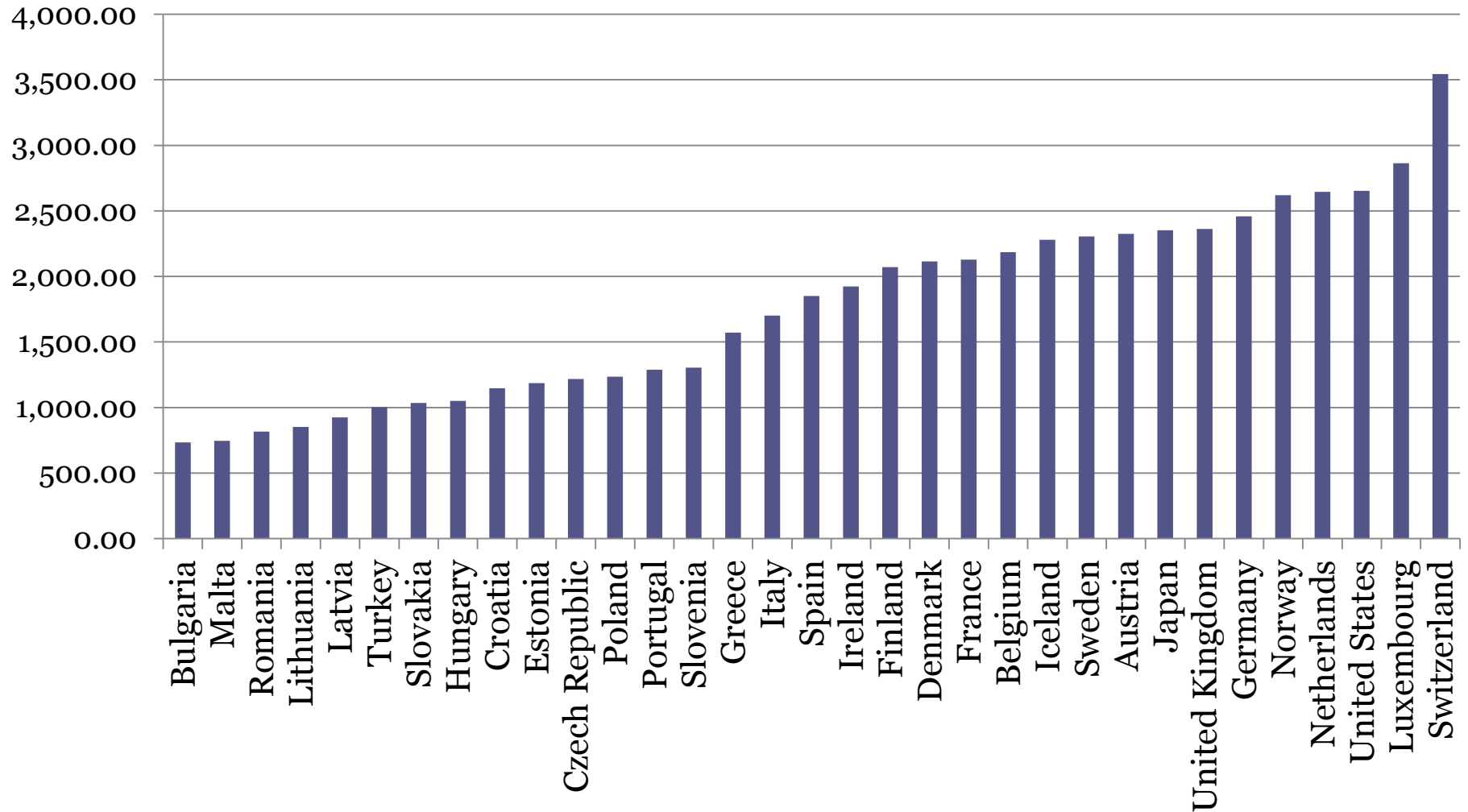
Percentage of unemployed that have been unemployed for more than one year



Average net monthly earning in Euro, 2015

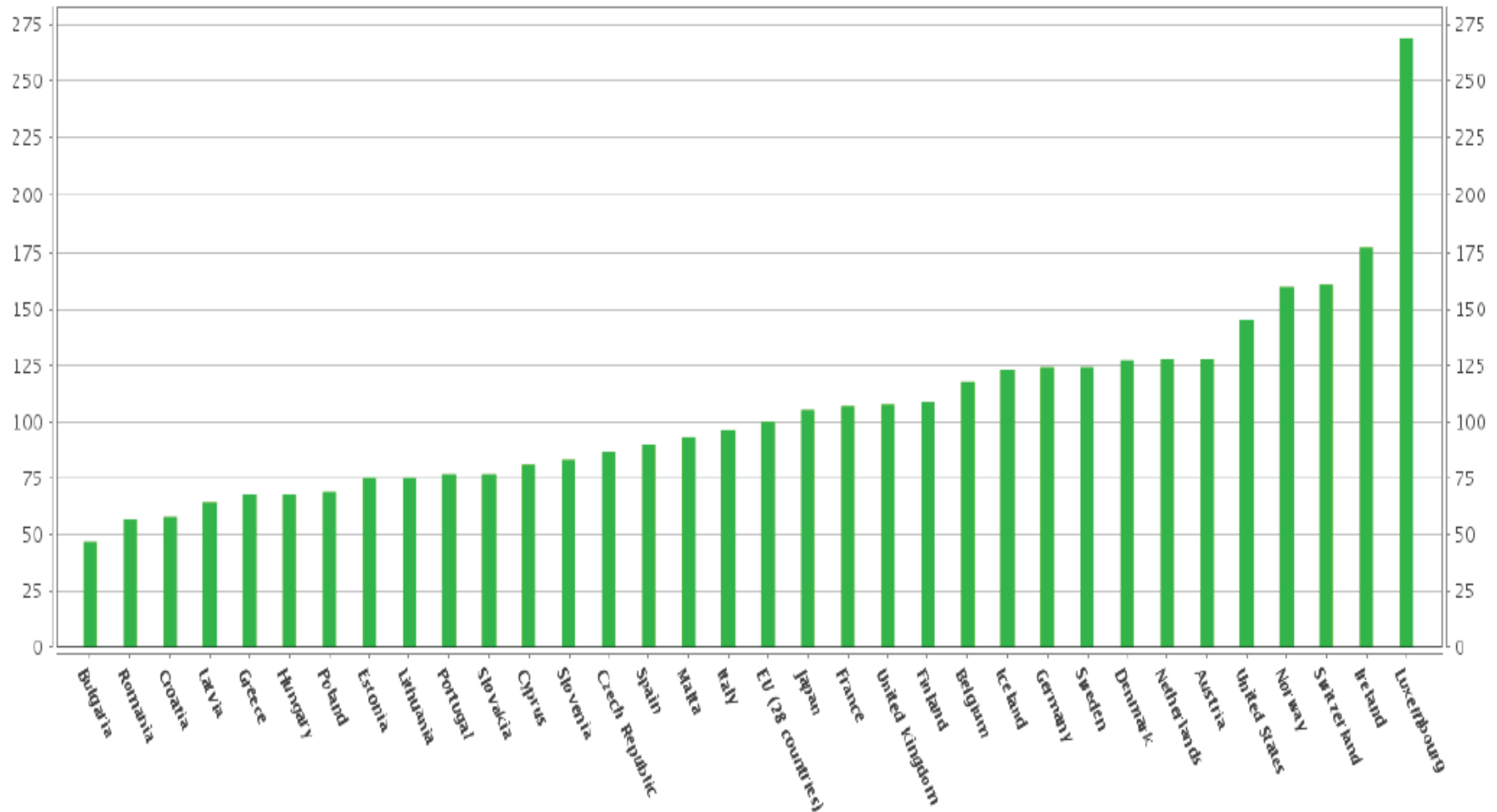


Average net monthly earning in Italian Purchasing Power, 2015



GDP per capita in PPP (2015)

GDP per capita in PPS
Index (EU28 = 100)



How a labour market works

- As a market, the labour market works according to a **demand for labour** (made by firms) and a **supply of labour** (made by the workers).
- Demand and supply determine the price of the market that, in this case, is the **wage**.
- We start building a very simple model describing a labour market that works according to perfect competition.

The perfectly competitive labour market

- Perfect competition in labour market predict no unememployment
- The simple set-up can be used to analyse the effect of unions, minimum wage, employment protection and unemployment benefits but this model is probably to simple to catch all the aspects of these institutions.