

Aspects of Labor Economics

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## INTRODUCTION

Why study labor economics? This question is important to answer before any study of the field begins. To start with, a definition of labor economics should be given. Simply stated, in informal terms, it is the examination of issues relating to the labor market. Of course many issues relate to the labor market. Thus, labor economics covers a wide field of learning. In this particular study, I have chosen to include three topics I find significantly important and of strong interest: 1) discussions on the minimum wage, 2) Search Theory, and 3) Quasi-Contract theory.

Yet, the question still remains why study labor economics? A number of reasons are prevalent and can be looked at.

One major reason for studying labor economics is its view of labor in society. Workers compose not only an economy, but are the very substance from which a society is made. Thus, if we are to appreciate social concerns for our working population, we need a theater where various opinions can be interchanged and debated.

Secondly, workers are a main factor of production. In a sense, the value of a product can be attributed, at least in part, to the value of the workmanship involved in the production process.



Thirdly, the aggregate supply of labor is often coincident, on a macro level, with the purchasers of the products from a given nation. Therefore, incomes of employees need to be understood by economists if a more firm grasp into the nature of the demand side of economic theory is to be obtained.

Political debate gives additional importance to labor economics. Election time provides an arena for ample discussion of unemployment, wages, productivity, distribution of income, and other topics within the scope of labor economics. By studying labor economics, it is hoped more informed opinions can be generated.

Still another reason for the importance of labor economics is its relevance to total economic theory. Labor plays a major role in economics. A better understanding of labor may result in new insight into other theories in economics.

Finally, like all models, theories of labor economics provide fascinating theoretical problems. By analyzing, contrasting, and comparing competing explanations of the labor market, general analytical abilities can be developed.

Minimum wage viewpoints are an important element of labor economics. The legislation effects millions of people directly, and the entire population indirectly. Furthermore, its lack of universal support involves drawing conclusions



from competing generalizations and explanations, making the theme particularly interesting.

Another model central to labor economics is Search Theory. This theory advances a more sophisticated vantage of the allocation of labor to various alternative uses. Because labor is no longer simply assumed to be a "factor" bought for a "price," but a human being working for a wage, a more complex model is needed to allow increased insight.

Like the previous two models, implicit contract theory also involves issues pertinent to many. Involving the unique and special needs of labor, this model attempts to cover empirical relationships between an employer and the employees.

I do hope that, by examining the three selected topics, a flavor for labor economics can be obtained. I realize there are numerous areas of great interest within the field. But, in the presence of practical limitations, I have chosen the topics I found to be most intriguing.