

What's New in the Eighth Edition?

The Eighth Edition offers a thorough rewriting of the entire textbook, making it the most significant revision in quite a few years. As one edition rolls into the next and material gets added to or deleted from the textbook, I think many authors discover that the book keeps moving further away from what the author originally intended. There comes a time when one needs to take a step back, get reacquainted with the entire manuscript free from the pressures of having to get the next edition out the door, take stock of how all the pieces fit together in the context of an ever-evolving field, and do a thorough rethinking of how to best present the material once more as part of a cohesive whole. I experienced that feeling about 3 years ago, shortly after the last edition was published, and decided at the time to tackle the Eighth Edition as if I were writing the textbook for the first time. And that is precisely what I have done.

Readers will find that although much will seem familiar, big chunks of the book have been completely rewritten and streamlined. The book still offers many detailed policy discussions and still uses the evidence reported in state-of-the-art research articles to illustrate the many applications of modern labor economics. The text continues to make frequent use of such econometric tools as fixed effects, the difference-in-differences estimator, and instrumental variables—tools that play a central role in the toolkit of labor economists. And the Eighth Edition even adds to the toolkit by introducing the synthetic control method.

But the text is now much leaner, making it a shorter and easier-to-read book. And it emphasizes, from the very beginning, how these empirical tools are a central part of the methodological revolution that changed labor economics in the past two decades. Empirical analysis must be much more than calculating a correlation describing the relation between two variables. It must instead reflect a well-thought-out strategy that attempts to *identify* the direct consequences of the many shocks that continually hit the labor market.

Among the specific changes in the Eighth Edition are:

1. There are several new extensions of theoretical concepts throughout the book, including a new section on household production (Chapter 2) and on the education production function (Chapter 6). Similarly, there are more detailed discussions of some empirical applications, including the signaling value of the General Equivalency Diploma (GED) and the male-female wage gap in the “gig economy.”
2. The important distinction that empirical labor economics now makes between estimating correlations and identifying consequences from specific labor market shocks is introduced early in the book. Specifically, Chapter 2 has a new section discussing the age-old distinction between correlation and causation in the context of evidence from the labor supply literature, which measures the labor supply consequences of winning a lottery or of how taxi drivers are compensated.

3. The section on the employment effects of the minimum wage provides a detailed discussion of the studies that measure the impact of the minimum wage in Seattle, with an illustration of how empirical work in labor economics, particularly when it addresses politically contentious issues, can often lead to wildly different conclusions.
4. A reorganization of the human capital material in Chapters 6 and 7. Because of the voluminous research on the economics of education, a detailed discussion of the education decision and of how to measure the returns to education now fills up Chapter 6. Chapter 7 continues the study of the human capital model by focusing on post-school investments, on the link between human capital and the wage distribution, and on the determinants of increasing wage inequality. The discussion also introduces the canonical model used in the wage structure literature that uses the Constant Elasticity of Substitution (CES) production function to derive a relative demand curve between high- and low-skill labor. The Mathematical Appendix now includes a detailed derivation of how the model is used to estimate the elasticity of substitution between two labor inputs.
5. The material on immigration, again one of those topics where the number of studies is growing rapidly, has also been reorganized and tightened. Some users of the earlier edition suggested that because of the intimate link between the wage impact of immigration and the efficiency gains from immigration, the introduction of the immigration surplus should follow immediately after the discussion of the wage impact, and I concur. The immigration material in the geographic mobility chapter now focuses on two issues that are more directly related to the migration decision: the self-selection of immigrants and the assimilation of immigrants in the receiving labor market.