

YOUR NAME: _____

Section I (30 points) Questions 1-10 (3 points each)

Section II (40 points) Questions 11-14 (10 points each)

Section III (30 points) Questions 15-16 (15 points each)

Section I. Define or explain the following terms (3 points each)

1. skill biased technological change--

2. worker surplus--

3. specific (human capital) training --

4. hedonic wage function--

5. Gini coefficient--

6. Oaxaca decomposition--

7. employer discrimination--

8. Mincer schooling model--

9. selection bias--

10. comparable worth--

Section II. True, False or Uncertain Questions—you are graded for your explanation.
11. “Superstar-type wages only require that sellers (the superstars) not be perfect substitutes.”

12. "If workers underestimate the amount of job risk, government regulation that forces the level of risk to be revealed makes workers better off.”

13. “Benefits mandated by the government (such as unemployment insurance or workers compensation) that are financed by tax payments by the employers, may not affect the overall level of employment even if the labor supply curve is NOT inelastic.”

14. “In 1960, there were relatively more blacks in the South and relative wages was much lower than in the Northern states (assume this is true). This indicates that southern employers discriminated more than northern employers.”

15. Suppose that we live in a signaling world, with two types of individuals. Blue types have inherent marginal products of 2, and red types have inherent marginal products of 1 (they are blue and red only on the “inside,” employers cannot tell them apart). The cost of acquiring "E" years of schooling is E for blues, and 3E for the reds.

a) What is the equilibrium level of schooling sufficient to sort out the reds from the blues?

b) How does each group fare relative to a world in which there was no signaling?

c) Suppose that the government steps in and subsidizes Red types (low-ability) for the higher costs they incur to get additional schooling, so that everyone now faces the same costs of schooling. Will the equilibrium change? How and why?

16. Consider the labor market 40 years ago in McGill, NV, with virtually all workers employed by the Kennecott Mining Smelter. The marginal revenue product (MRP) curve is given as

$$\text{MRP: } \text{wage} = 50 - .1 \text{ EEs}$$

$$\text{Aggregate labor supply: } \text{wage} = .05 \text{ EEs}$$

Where wage=hourly wage rate

EEs=number of employees

a) What is the equilibrium number of workers and the wage rate? (big hint: the marginal cost of labor curve is derived by taking the derivative of the total costs of labor with respect to the number of employees).

b) If there is an excise tax of \$3/hour placed on the workers, what will be the new equilibrium of wages and employment?

c) Could a minimum wage ever increase employment in McGill, NV?