

Second Exam: Economics 463, Labor Economics fall 2003 in R. Butler's section

**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. regression towards the mean--

3. social capital--

4. efficiency wages--

5. statistical discrimination--

6. Oaxaca decomposition--

7. employer discrimination--

8. Mincer schooling model--

9. internal rate of return--

10. implicit contracts--

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. "Governments should always subsidize education, including college education."

14. "It never pays for a firm to pay for general human capital acquisition of its workers."

15. Suppose workers vary in their aversion to risk and ability to hand assemble a widget (a hand assembled component of the larger wadget machine). Firms vary in their ability to monitor output; some can do so at lower cost than others. Give as much detail as you can into the economic forces leading some firms to assemble widgets by piece, and what determines which workers will take piece rate jobs assembling widgets and which will want time rate pay (pay for hour of work).

16. Develop the tournament theory of executive pay as fully as you can, to explain why executives' salaries might be unusually large and the salary differential between the chief executive and his most able assistant larger than their apparent differences in marginal productivity.