



11. net present value of human capital investments—

12. Marshalls rules of labor demand (give 2 of the four)--

13. Pareto efficiency—

14. homothetic production function—

15. piece rate pay vs. time based pay--

16. efficiency wages—

17. quasi-fixed labor costs—

18. education as a signaling device—

19. deadweight loss of a payroll tax--

20. asymmetric information--

Section II. Part one: True, False, or Uncertain (sometimes true). You are graded on your explanation

21. “Kim Jones is able to select her weekly work hours. When a new bridge opened up, it cut one hour off Kim’s commute to work, but Kim did not change her weekly hours of work. This indicates that Kim’s labor supply curve sloped backward.”

22. “Certain occupations, like coal mining, are inherently dangerous. Unambiguously, the most appropriate government policy for these occupations would be to establish and enforce rigid safety standards.”

23. “As unemployment insurance benefits increase (say by government legislation), then search theory suggests that workers will have more money to search, thus lowering the average duration of unemployment due to search.”

24. “If workers value their unemployment and workers compensation coverage at less than its full cost, employment and wages will fall once those programs are implemented assuming that the firm pays for all the insurance costs of those programs.”

Second II. Part two: Some Fun Questions

25. How have ERISA and EEOC affected workers and the workplace environment?

26. Briefly discuss some of the explanations of why men are paid more than women, including crowding, dual labor markets, and employer tastes for discrimination (but DO NOT discuss hierarchical discrimination for this problem).

27. a. Explain what firm specific human capital is.

b. What labor market models have we discussed this semester that depend on firm specific human capital in order to be feasible?

28. Derive the conditional labor demand function (labor as a function of output,  $Y$ , and input prices,  $s$  and  $w$ ) for the Cobb Douglas model:  $Y = K^\alpha L^{1-\alpha}$ .

Section III.

29. The compensating wage problem in the market for risky jobs. SUPPLY: Assume that the compensating variation for risk ( $Z$ , just as in class) varies across workers following a uniform distribution:

$$G(\Delta W) = \Delta W / \varphi \quad \text{where } \Delta W \leq \varphi$$

giving the fraction of workers choosing risky jobs ( $N_1$ ) as a function of the compensating wage differential,  $\Delta W$ . The compensating differential  $\Delta W$  is larger than that required (namely  $z$ ) to induce them to work.

DEMAND: To keep the analysis simple, we also assume that the Benefit from allowing risk ( $B$ ) is also uniformly distributed so that

$$3) F(\Delta W) = \Delta W / \alpha \quad \text{where } \Delta W \leq \alpha$$

is the number of firms for whom  $B$  is less than the compensating wage  $\Delta W$  so that it is cheaper (in terms of lost output) to have a safe production environment than it is to pay the extra wages associated with risky work.

- a) Show that supply curves slope upward and demand curves slope downward (where the relative employment of risky to safe workers ( $N_1/N_0$ ) is a function of the wage differential,  $\Delta W$ ).
- b) Find the (at least the implicit) equilibrium wage differential,  $\Delta W$ .
- c) What happens to the relative number of risky workers and the compensating wage when risk aversion increases (i.e.,  $\varphi$  increases)?

30. a. Describe what determines the benefits paid out under workers' compensation and unemployment insurance (describe the institutional framework—i.e., not supply and demand).

b. What are the moral hazard issues with respect to workers' compensation and unemployment insurance, and how do these systems address workers' moral hazard incentives?

31. Suppose that BYU male students have preferences for being served by females, and BYU female students have a preference for being served by males, when going to an eating establishment, but no one else in the community has such preferences.

a. If BYU has a very large Food Court, whose operations are unfettered by BYU administration (employees maintain BYU standards, of course), how will the gender composition of employment and relative wages in the BYU Food Court be determined if:

- i. College town (where the other restaurants are located) pays competitive wages and most of college town's customers are NOT BYU students, and
- ii. It is costly for BYU students to travel to College town for meals.

b. What would happen to wages and relative numbers of males and female Food Court workers if most of the male students left BYU and weren't replaced by other male students?

32. Discuss some of the circumstances (alternative models), but NOT THE SIGNALING MODEL, where the Mincer model of wages/education breaks down. That is, why—under some of these alternative models--isn't the coefficient on the schooling variable not necessarily a good measure of the rate of return to schooling.