FINAL EXAM

This examination is 100 points and will count 25% of your final grade. Please read the exam over before starting. You will have 3 hours to complete the exam. Please note the point values for each question. No books, notes, or any source of outside help is permitted.

If you have choice and elect to use it:

Answer any 3 of Questions 1-4 (3 @ 16 points) .................................................. 48 points
Questions 5 and 6 (12 points each) ................................................................. 24 points
Multiple Choice. (Questions 7-30) ................................................................. 24 points
Last page. All receive full credit ................................................................. 4 points
Total ........................................................................................................ 100 points

If you have choice and elect not to use it or do not have choice:

Answer all Questions 1-6 (6 @ 12 points) .................................................. 72 points
Multiple Choice. (Questions 7-30) ................................................................. 24 points
Last page. All receive full credit ................................................................. 4 points
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a. Please describe how one measures the impact of immigration on wages through spatial analysis.

Spatial analysis examines how wages differ across communities. We can see how the wages of the native born community compare in communities with many or with few immigrants.

b. What do these studies find in terms of the impact of immigration on the wages of native born workers?

That immigration tends not to depress the wages of the native born population. In communities with a lot of immigrants, the wage rate of the native born worker is similar to areas with few immigrants.

c. What does Borjas feel about the accuracy of these studies? Explain why he feels that way.

He said it adds little to our knowledge of wages and assumes due to immigration, then native born workers migrate out. The supply of labor falls in the areas of outsourcing and the wage rises. It falls in the areas. They give us little as the supply rises so they tell us little as native born wages are lower.
2. For each of the following; (1) please state whether action described is legal or illegal, (2) the relevant law or Supreme Court decision that makes the action legal or illegal and (3) what about the action makes it legal or illegal.

a. The clerical workers at OWU form a labor union and win a representation election conducted by the NLRB. They want to bargain for higher wages, but the administration refuses to bargain, stating that clerical workers are not key to the mission of the university. (Discuss the university's refusal to bargain.)
   - **Illegal.** Wagner Act (National Labor Relations Act) states must bargain in good faith in an attempt to reach an agreement with a certified union.

b. The clerks at the United States Department of Commerce go on strike demanding more money to calculate the level of GDP. (Discuss the strike by these federal employees.)
   - **Illegal.** Taft-Hartley Act and Public Law 370 protect striking by federal employees.

c. The Dew Drop Inn requires all waitresses to have a college degree. Although the local population is 30% African American, only 15% of African Americans in the area have a college degree and 15% of the waitresses at the Dew Drop Inn are African American. (Discuss the requirement of a college degree to be a waitress. Assume no specific major is required.)
   - **Illegal.** Civil Rights Act on Caffey v. Dade County. You can have a requirement that has a disparate impact if it is necessary to do the job. A college degree is not necessary to be a waitress.

d. The United Professors Union represents the faculty at the University of Southern North Dakota at Hoople. They get the university to agree to hire only people who already are members of the union. (Discuss the legality of the contract restricting hiring to people who are already members of the union.)
   - **Illegal.** This would be a conspiracy.
3.

a. Controlling for other factors, what effect does joining a union have on the wages of a worker? Please express your answer as a percentage.

\[\text{6-15\%}\]

b. Is the impact greater or smaller during times of an economic downturn, i.e., recession?

greater

c. Please explain what is meant by the threat effect.

Firms will pay non-union workers a wage comparable to union wages to avoid them joining a union sector.

d. Does the threat effect cause the impact of unions on wages to be even larger when we just look at the wages of unionized and non-unionized workers? Explain.

smaller, it raises the wages of non-union workers reducing the gap. Union workers do better than just the gap in wages.

d. Yes, larger unions cause the wages in the non-union sector to be even lower, thus increasing the gap.

e. Please use the graphs below to demonstrate the spillover effect on unionized and non-unionized workers. Carefully label the axes.

f. Does the spillover effect cause the impact of unions on wages to be even larger when we just look at the wages of unionized and non-unionized workers? Explain.
4.a. There are two job search models discussed in the text. Choose one and write the name below. Then describe the model.

Stigler: One looks at the cost of continuing the search. As long as \( ms > mc \), continue to search and remain unemployed.

McCall: There is a range of job offers based on the distribution of unemployed people and an expectation of average wage and set an acceptance wage. Continue to look until accept wage met.

b. State the three types of unemployment. Explain each in a few words.

Cyclical: Deficient demand due to downturn in business cycle.

Structural: Mismatch between people and jobs.

Frictional: System does not work smoothly. It takes a while for people to find right job.

c. Which of the three types of unemployment you mentioned in part b are associated with the job search model you mentioned in part a?

Frictional.

d. Currently Unemployment Insurance benefits run for a maximum of 26 weeks. Suppose (can I say “for the sake of argument” one last time?) these benefits are extended to 52 weeks and the weekly benefit is raised by 30%. What effect will this have on the unemployment rate?

Unem. Rate ↑

e. Please explain your answer in part d in terms of the search model you discussed in part a.

Stigler: \( mc \) of searching falls as spell gives you \( ms \) while searching.

McCall: Could afford to look longer.
Note: Please answer BOTH 5 and 6. NO CHOICE.

5.a. Kim can earn $10 per hour and can take up to 100 hours of leisure each week. In the space below please draw a budget line for Kim. Label the line AB. Please label and number the axes.

5.b. Please draw an indifference curve that shows Kim working 40 hours per week. Label it I1.

5.c. Please show Kim’s budget line if his wage were to fall to $7. Label it CD.

5.d. Please draw an indifference curve that is possible when Kim’s wage is $7 and gains Kim the highest level of utility. Label it I2. (Note, there may be more than one correct answer.)

5.e. In the space below, draw the supply curve of labor for Kim. Carefully label and number the axes.

5.f. Suppose Kim is a woman. Is your curve in part e similar to what we find for women in general? Explain.

[Student's answer: It is not similar. Here the increase in wage results in fewer hours worked for women than is a powerful supply effect so when W, L.]

2 on curves]
6.a. What is meant by the term internal labor market?

Jobs that are filled through internal promotion. The jobs are inter-related.

b. In the space below, sketch a diagram of an internal labor market. Don’t forget to indicate the port(s)-of-entry.

Many possible examples

\[ \text{district manager} \]

\[ \text{branch manager} \]

\[ \text{personal banker} \]

port-of-entry

port-of-entry

To promote the passing on of firm’s specific on-the-job training.

c. Why do firms use internal labor markets?

d. Cite three ways that wages are set in an internal labor market and explain each in a sentence.

In essence, wage pattern tend to be kept on time. Wages set in downturn direct workers react.

Community wage surveys survey other employers out of course comparisions. Employer makes comparisions to see where cut others.

Job evaluation--assign points which translate to $100.

Social status--those who manage tend to get paid.
Numbers 7-30 are worth one point each. Circle the best answer.

7. The idea of the median voter model for labor unions is an example of
   a. the dual labor market school.
   b. the institutional school.
   c. the neo-classical school.
   d. the sociological school.

8. Which of the following has had the largest impact on the labor supply of married women in the last 40 years?
   a. the cross-substitution effect.
   b. the income effect.
   c. the substitution effect.
   d. efficiency wages.

9. Suppose that Seth commutes to work every day. The recent increase in the price of gasoline has had what effect on his budget line in the labor/leisure model?
   a. made a parallel shift away from the origin.
   b. made a parallel shift towards the origin.
   c. caused the curve to have a steeper slope.
   d. caused the curve to have a less steep slope.

10. Over the last half century, the labor force participation rate of males
    a. decreased due to the increased availability of disability benefits.
    b. decreased due to the higher minimum wage.
    c. increased in response to higher real wages.
    d. increased but economists are not certain as to why.

11. Compared to a perfectly competitive labor market, a monopsonist in the labor market will
    a. have a higher wage and higher level of employment.
    b. have a higher wage and a lower level of employment.
    c. have a lower wage and a higher level of employment.
    d. have a lower wage and a lower level of employment.

12. The demand for labor will be more elastic if
    a. labor is a small share of total cost.
    b. the elasticity of demand for the product labor makes is elastic.
    c. the time period is rather short.
    d. there is not a good substitute for the product labor makes.
13. Which of the following statements about on-the-job training is correct?
   a. workers bear the cost of firm-specific on-the-job training and reap the benefits.
   b. workers bear the cost of firm-specific on-the-job training but employers reap most of the benefits.
   c. employers bear the cost of firm-specific training and reap most of the benefits.
   d. employers bear the cost of firm-specific on-the-job training and workers reap most of the benefits.

14. One of the primary reasons firms pay efficiency wages is that
   a. they must unless there is a “yellow dog” contract.
   b. to recruit better workers.
   c. some firms are required to under the provisions of the Davis Bacon Act.
   d. wages are usually sticky in a downward direction.

15. I was speaking to a human resources manager who noted that potential employees who were recommended by current employees tended to make better employees. If they use this to determine who to hire, this would be an example of
   a. human capital
   b. internal labor markets.
   c. screening hypothesis.
   d. signaling

16. Compensating wage differentials
   a. result in those with a higher education getting paid more.
   b. result in those with a lower level of education getting paid less.
   c. result in those with unattractive job attributes getting paid more.
   d. explain 40 % of the gap in earnings between women and men.

17. The Detroit Tigers have noticed that left-handed batters tend to perform better against right-handed pitchers. Since most pitchers are right-handed, they employ a disproportionately higher share of left-handed batters. This is an example of
   a. efficiency wages.
   b. employer discrimination
   c. statistical discrimination
   d. inertia.
18. The residual (Oaxaca) method of measuring discrimination
   a. examines the effect of higher shares of women employees in an industry on their wages.
   b. looks at the impact of employer, employee and customer discrimination on wages of minority workers.
   c. shows that non-union workers tend to make less than union workers.
   d. examines what the wage rate of minority workers would be if they enjoyed the same economic return to their characteristics as non-minority workers.

19. Approximately what percentage of the American workforce belongs to a labor union?
   a. 12%
   b. 20%
   c. 33%
   d. 48%

20. The Landrum Griffin Act did all of the following except
   a. give union members a “Bill of Rights.”
   b. limit the ability of national unions to impose a trusteeship on local unions.
   c. require arbitration when police and city governments can’t reach an agreement.
   d. set guidelines for the conduct of union elections.

21. In the model of bargaining power, a product that is more perishable
   a. decreases the bargaining power of management and increases the bargaining power of the union.
   b. decreases the bargaining power of management and has no effect on the bargaining power of the union.
   c. increases the bargaining power of the union and decreases the bargaining power of management
   d. increases the bargaining power of the union and has no effect on the bargaining power of management.

22. At the intersection of the union resistance curve and the employer concession curve we will find
   a. a strike
   b. the area of indeterminacy.
   c. the median voter.
   d. the wage rate.
23. The evidence presented in class or the text indicates that unions
a. raise productivity
b. raise profits.
c. raise wages more in perfectly competitive industries
d. increase the dispersion of wages.

24. Currently, the largest category of immigrants to the United States are those who are admitted
a. because they possess needed job-market skills
b. by a lottery.
c. for family reunification
d. for political asylum

25. In the Beveridge curve, the use of monetary policy would cause
a. a movement down the curve.
b. a movement up the curve.
c. a shift of the curve away from the origin.
d. a shift of the curve towards the origin.

26. The current unemployment rate is approximately
a. 3.8%
b. 4.5%
c. 5.5%
d. 7.5%

27. Unions grew in size from 1930 to 1945 for all of the following reasons except
a. legislation favorable to labor.
b. the rivalry between the AFL and CIO
c. the increased use of craft unionism rather than industrial unionism.
d. World War II.

28. According to Galenson, one of the reasons the American labor movement developed along more “bread-and-butter” lines rather than European “pie-in-the-sky” lines was because
a. injunctions were frequently used against striking workers in the United States.
b. the growth in the standard of living was higher in the United States
c. the Sherman Anti-Trust Act was applied against labor.
d. the union/non-union wage differential was less in the United States.
29. Under current law, which one of the following is legal?
   a. Boulwarism
   b. open shops
   c. public school teacher strikes in Ohio
   d. yellow dog contracts

30. Dunlop’s model of unions says that unions might attempt to maximize any of the following except
   a. the area of indeterminacy
   b. the level of employment
   c. the wage bill
   d. the wage rate
31. (Four points) All will receive full-credit. I will have Patti remove this page before grading it so your answers will remain anonymous. She will give them to me after grades are in. Thanks and good luck.

a. In terms of topics as well as the way the course was taught, what were some of the things that were best about the course.

b. In your view, what should be changed in the course? Please explain why this would improve things and how I might do things differently.