1. Suppose we look at a standard economic model of the supply of waitress labor to and the demand for their labor at the Brown Jug Restaurant.

<table>
<thead>
<tr>
<th>Supply</th>
<th>Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage</td>
<td>Labor</td>
</tr>
<tr>
<td>$5.00</td>
<td>1</td>
</tr>
<tr>
<td>$5.50</td>
<td>2</td>
</tr>
<tr>
<td>$6.00</td>
<td>3</td>
</tr>
<tr>
<td>$6.50</td>
<td>4</td>
</tr>
<tr>
<td>$7.00</td>
<td>5</td>
</tr>
</tbody>
</table>

a) What is meant by the law of one wage?

b) If the law of one wage holds and the wage is $6, how many waitresses will be hired?

3/2 3 (see demand)

c) What is meant by the term labor monopsony? (If you prefer, discuss labor oligopsony or monoposonistic competition.) Discuss in terms of this example.

There is only one employer of labor.

d) If a labor monopsony existed for the Brown Jug, calculate the wage paid by them and the number of employees.

\[
\begin{align*}
\text{W} & = \frac{L}{\text{MC}} \\
\text{W} & = \frac{5}{6} \\
\text{W} & = \frac{6}{5}
\end{align*}
\]

\[
\begin{align*}
\text{W} & = \text{MPC} \\
\text{W} & = \text{W} \\
\text{W} & = 6
\end{align*}
\]

So hire 2 @ $6

e) If the Brown Jug has a labor monopsony and if a minimum wage of $6/per hour were imposed, what would be the number of people employed?

3/3 3

f) When labor monopsonies exist, an increase in the minimum wage will have what effect on the number of people employed?

increase
2. Suppose that Marge and Homer are married. Homer has decided to move to Shelbyville to attend law school for three years starting this year. Marge is trying to determine what to do. She will return with Homer to Springfield at the end of 2007. She plans to mother/homemaker and not work for pay after 2007. Her costs and income are given below.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cashier</td>
<td>$20,000</td>
<td>$23,000</td>
<td>$27,000</td>
</tr>
<tr>
<td>LPN training &amp; work as a nurse</td>
<td>$-5,000</td>
<td>$36,000</td>
<td>$40,000</td>
</tr>
</tbody>
</table>

a) The present value formula uses the term “i”. It was discussed in the book and in class. Explain what it is.

b) Cite two reasons why “i” must be used.
- Inflation.
- Opportunity cost of money could save or invest
- Time preference: want money now.

c) Calculate the Present Value of each career for Marge.

\[
P_{\text{Cashier}} = \sum_{t=0}^{2} \frac{\text{Inc}_t}{(1+i)^t} = \frac{20,000}{1.10} + \frac{23,000}{(1.10)^2} + \frac{27,000}{(1.10)^3} = 20,000 + 19,019 + 15,279 = 54,298
\]

\[
P_{\text{Nurse}} = \sum_{t=0}^{2} \frac{\text{Inc}_t}{(1+i)^t} = \frac{-5,000}{1.10} + \frac{36,000}{(1.10)^2} + \frac{40,000}{(1.10)^3} = -5,405 + 34,758 + 37,520 = 67,823
\]

d) Which should she choose? WHY?

Cashier. A higher present value.

e) Marge’s decision is based on private income and costs. Cite one thing that would be in her social rate of return, but not her private rate.
- Subsidized tuition at public university
- Financial aid from parents (Jacqueline "Jackie" Bouvier)
- Tax paid (benefit to other)
3. Please read the following example from an article by David Neumark, Roy J. Bank and Kyle D. Van Nort.

A recent study of the hiring practices of low-priced and high-priced restaurants also indicated that these employers valued men and women differently. Young men and women carrying identical (and fictitious) resumes were sent out to apply for jobs at Philadelphia restaurants. A waiter can typically do much better—in terms of wages and tips—at a high-priced restaurant. Even though the applicants looked alike on paper, 8 out of the 10 jobs offers made by low-priced restaurants were made to women, whereas 11 of the 13 job offers made by high-priced restaurants were made to men.

a) What were the three types of discrimination Gary Becker cited. Discuss each in terms of the above piece.

b) What is meant by statistical discrimination? Discuss in terms of the above piece.

c) What was the Griggs v. Duke Power decision?

d) If you were a restaurant owner, how would you defend hiring male waiters at a high-priced restaurant in light of Griggs v. Duke Power?

4. a) Give an example of an actual general skill.

b) The diagram to the right shows the Marginal Revenue Product of a worker undergoing **general on-the-job training**. The horizontal line at $10 shows the worker's MRP with no training. Show the **wage rate** at each age if general on-the-job training occurs.

c) Who pays for the general on-the-job training; the worker of the firm? Why are they willing to pay for it?

d) Give an example of an actual **firm-specific** skill.

e) The diagram to the right shows the Marginal Revenue Product of a worker undergoing **firm-specific on-the-job training**. The horizontal line at $10 shows the worker's MRP with no training. Show the **wage rate** at each age if firm-specific on-the-job training occurs.

f) Who pays for the firm-specific on-the-job training; the worker of the firm? Why are they willing to pay for it?
5. The area of indeterminacy is:
   a. the range of wage rates within which a labor union has choice over the wage it wishes to obtain.
   b. the range of employment levels possible in a competitive labor market.
   c. larger the more the labor market corresponds to the assumptions of the competitive model.
   d. the range of wage rates within which demand and supply allow firms discretion as to their pay policy.

6. Which of the following is not considered a labor market imperfection?
   a. non-maximizing behavior of firms
   b. imperfect information
   c. homogeneity (sameness) of workers and jobs
   d. unions

7. The current federal United States minimum wage is
   a. $3.30 per hour
   b. $4.50 per hour
   c. $5.15 per hour
   d. $6.50 per hour

8. Which group is covered by the federal minimum wage?
   a. administrative and professional workers
   b. employees of small retail firms doing business in one state
   c. teens in families with less than 200% of poverty line.
   d. none of these are covered.

9. The majority of workers at the minimum wage are
   a. married
   b. poor
   c. under the age of 25.
   d. none of the above.

10. The upward sloping portion of the average worker's age-earnings profile can be explained as arising from:
    a. the practice of companies to reward additional pay and promotions to workers on the basis of years of seniority.
    b. the fact that workers, on average, build up a greater stock of human capital through the process of on-the-job training (at least up to a certain age).
    c. the decision of companies to motivate employee work effort by deferring a portion of the worker's Compensation until later in their life.
    d. all of the above.

11. Human capital theory predicts that women who plan on interrupting their work career will:
    a. have a steeper age/earnings profile than women who do not.
    b. be more likely to attend college than women who do not.
    c. be given less specific OJT by firms than women who do not.
    d. be more likely to be hired into a job in the firm's internal labor market than women who do not.
12. People usually obtain a master's degree before a Ph.D. Obtaining a Ph.D. degree will be a more attractive investment:
   a. the higher the market rate of interest.
   b. the larger the earnings of persons with a master's degree.
   c. the older is the person.
   d. the longer the person expects to work.

13. Suppose that an investment banking firm believes college teaches students nothing useful. They hire only college graduates, however this is an example of:
   a. general training
   b. human capital
   c. screening
   d. signaling

14. Firms can facilitate the acquisition of firm-specific human capital by all of the following except
   a. cutting wages
   b. internal labor markets
   c. increasing fringe benefits with service
   d. seniority

15. Assuming the labor supply curve to an occupation is upward sloping, economic rent is earned by:
   a. the last worker hired.
   b. only the first worker hired.
   c. all but the last worker hired.
   d. all workers hired.

16. Which statement is true?
   a. Most jobs/positions are filled outside the firm (hires rather than makes)
   b. Jobs are more likely to be filled from within the firm, the higher the position on the job ladder.
   c. Promotions are more likely to occur in years 5-7 in a position rather than the first two years.
   d. none of the above are true.

17. Which of the following is not used to set wages within an internal labor market?
   a. inertia
   b. community wage surveys
   c. social status (managing)
   d. all of the above are used.

18. Keynes noted wages were "sticky". He meant
   a. wages tend not to change frequently.
   b. the relative wages of workers to each other tend to stay the same.
   c. wages fall only with difficulty
   d. workers compare themselves to others to justify the highest wage rates

19. Tournament theory is used to explain
   a. the high level of CEO earnings
   b. the high return to a college degree
   c. the decline in average wages
   d. the increase in the use of fringe benefits
20. Occupational licensing is a prime cause of
   a. *compensating wage differentials*
   b. the increase in the use of fringe benefits
   c. occupational segregation
   d. monopoly rent.

Whoops

4

Questions were omitted.

8 Free Points

Yeah!!!