1. In each situation discuss whether the action is legal or illegal, explain why or why not and cite the relevant law or court case.

a) The Service Employees International Union wins a representation election to bargain for workers at the Delaware McDonald's. Management at McDonald's refuses to negotiate stating that the workers are just teens working for a year or two. (DISCUSS McDonald's refusal to bargain.)

b) Pipefitters are the people that install the plumbing and the pipes in a building. Suppose that 80% of the employees at the Ace Pipefitters Co. are male. Ace states that they hire few women as they cannot lift the 100 pound pipes, something that is necessary on the job. A women's group notes that 50% of the population is female, yet they hold only 20% of the jobs. (DISCUSS Ace's hiring only 20% women.)

c) Ohio is not a so-called right-to-work state. Suppose that the Teamsters Union demands that Freightways, a trucking company, only hire Teamsters and that Freightways agrees. (DISCUSS such a contract.)
2. a) Three types of unemployment were presented in the text as well as in class. State them and either briefly explain them or give an example of each.

- **Cyclical unemployment**: Unemployment due to the business cycle, i.e., a lack of aggregate demand.
- **Structural unemployment**: The mismatch of people and jobs due to location or skill.
- **Frictional unemployment**: Unemployment due to the fact it takes people a while to find a job.

b) Which, if any are present at full employment?

- Structural & Frictional

c) In the space to the right, I have presented the Beveridge Curve. Please label the axes.

d) Suppose we were to go from point A to point B. Which type(s) of unemployment listed in the part (a) would be affected? Would they be increased or decreased?

- Cyclical

2/1

e) State a government action that would result in a movement from A to B.

- Monetary policy (reduce discount rate, resevoir, buy bonds)
- Fiscal policy (cut taxes or increase govt spending)

2/2

f) Suppose we were to go from point B to point C. Which type(s) of unemployment listed in part (a) would be affected? Would they increase or decrease?

- Structural & Frictional

2/1

g) State a government action that would result in a movement from B to C.

- Worker training programs (structural)
- Reduce unemployment benefit (frictional)
- Better job placement (frictional)

2/2
3. The SHAD assignment we did showed the union workers made 24% more per week than non-union workers. The text found that, ceterus paribus, union workers made 6-15% more, all else held equal.

a) What is the spillover effect? Does this cause the union/non-union wage gap to be larger or smaller? When union workers win a wage increase, some lose their jobs, so in the non-union sector, then the supply side increases and wage falls. This causes the effect to be larger.

b) What is the threat effect? Does this cause us to underestimate or overestimate the effect unions have on wages when we look at the figures above? Why?

If union workers win a wage increase, then workers at non-union firms will want a wage increase too. If they don't get it, they will threaten to form a union. If we compare union to non-union wages, the threat effect lessens the perceived impact on wages from the wage effect.

c) Do unions have a bigger effect (percentage wage change) on the wages of the better-educated or less-educated workers? Explain why.

A bigger impact on less-educated workers. They have less bargaining power so unions can help them the most.

Unions also reduce wage dispersion, helping the less educated who tend to be at the bottom of the wage dispersion.

d) The union effect on wages can vary by demographic race. Is the union wage effect bigger for blacks or whites? Explain.

Blacks see a bigger impact. They have less education, unions also reduce wage dispersion and limit discrimination.

The text discusses the work of Blanchflower who found that unions had no impact on the black/white wage difference, ceteris paribus. This is because unions by race, discriminate.

e) Let us assume the 24% figures from SHAD and the 6-15% from the text are both accurate. The primary reason for the difference is that the SHAD did not control for other factors. Aside from education and race, cite another factor used in the studies from the text and why this might cause a higher union effect in the SHAD data.

SHAD estimated not control factors such as age (bigger impact for young workers), gender (a bit larger for women), sector of the economy or occupation (bigger impact for blue collar workers).
Problems 4-6. No Choice. All must do. Ten points each.

4. a) Let us look at the labor leisure trade-off of Anna Marie. Suppose she can earn $9/hour as a bank teller. Draw her budget line. Label it AB.

b) How many hours per week will she work?

60

c) Suppose she got a raise to $12 hour. Draw her budget line and label it CD.

d) How many hours per week will she now work?

50

e) Is the income or substitution effect larger for Anna Marie? How can you tell?

The income effect is larger here. As her wage rose she purchased more leisure.

f) Explain what your answer in part (e) means in terms of wages and hours worked.

As the wage rate rise she take more leisure and works fewer hours.

g) Is this consistent with what we usually see for women in general? Explain.

The substitution effect usually result in more hours worked.

h) In the space to the right draw her supply curve of labor.
5. Suppose you attend a holiday party and bump into your two long lost cousins: Abel and Baker. They are both the same age, graduated OWU ten years ago and have had no additional formal schooling. Abel was hired by Merill Lynch to sell stocks. They trained him to sell stocks. Baker was hired by NatBankCo to do computer programming. He was trained to use the BankInfo computer system but NatBankCo is the only firm using this system.

a. What do we call the type of training Abel received?
   General Training

b. What do we call the type of training Baker received?
   Firm-Specific Training

c. Who was more likely to have paid for his training: Abel or Baker? Explain why.
   Abel. He can take the training to many employers and get a higher wage. He benefits so he pays

d. Based on this limited information about training, who is more likely to be making more money today; Abel or Baker? Explain why.
   Abel. If Merrill Lynch does not pay him his MPL, he will move on. For Baker, he is worth more to NatBankCo than anyone else. They need not pay him his MPL, only more than anyone else.

e. Based on this limited information about training, who is more likely to leave their job over the next few years? Explain why.
   Abel. NatBankCo will want to keep Baker and not lose his firm-specific training.

f. Does Baker’s training increase the value of his Marginal Revenue Product? Explain how you can tell based on your answers above.
6. Please read the following. The question you are to answer follows at the bottom of the next page. (Taken from the Migration Policy Institute website.)

**Bush Proposes New Temporary Worker Program**

**By Maia Jachimowicz**

**Migration Policy Institute**

On January 7, 2004 in his first formal request to Congress in 2004, President George W. Bush announced his administration's views on immigration reform. The announcement marked the first time Bush has addressed immigration policy in a significant way in the past two years. The proposal, which was delivered in the form of a statement of principles, included, among other things, the creation of a temporary worker program for newcomers and for immigrants currently living in the US without authorization.

Bush's proposal included the following ideas:

- The program would be open to new workers applying from their home country and to unauthorized immigrants currently living in the US.
- The proposed temporary worker program would be non-sector specific—agricultural workers, construction workers, and those working in hotel services, for example, would be eligible to apply for legal temporary status.
- The number of visas available under the temporary worker program would be determined by the number of available jobs. Currently the US has annual visa caps for several of its temporary worker programs, such as the H-1B program.
- The new temporary visas would be valid for three years, and would be renewable an unspecified number of times.
- Visas would be portable—a visa would not be tied to a particular job and each immigrant would have the right to change jobs, even across sectors.
- Unauthorized immigrants applying from within the US would be required to pay a fee and prove they are currently employed.
- Immigrants applying from abroad would require an offer of employment from a US employer for a job that the employer could not fill with a domestic worker.
- Temporary workers under the new program would be able to leave and reenter the country at will. However, once the temporary worker visa is no longer renewable, the foreign worker would be required to return to their home country permanently.
- After the initial domestic registration phase for unauthorized immigrants in the US, the program would only be applicable to newcomers applying from their home country.
- The proposal includes the creation of an electronic database of willing foreign workers and willing US employers. After verifying that a reasonable effort to hire a US citizen has been made, the government would then facilitate a match and begin processing the temporary work visa for an eligible applicant.

All applicants would have the opportunity to apply for permanent resident status ("green card") during the course of their legal stay in the US, but only through existing channels. In accordance with current requirements, all applicants would need a sponsor (either an employer or a family member) to become eligible for residency, and permanent visas would first have to become available. No preferential status would be given to applicants participating in the temporary visa program—each application would be processed in the order received.

Two financial incentives are built into the proposed program: tax-preferred savings accounts and Social Security totalization. The US would work with sending countries to allow temporary workers to contribute a portion of their earnings to savings accounts, with reduced or no taxes, that could be collected upon returning home, and to allow returning immigrants to receive credit in their nation's social security system for work done in the US.

In addition to proposing a temporary worker program there would also be a "reasonable" annual increase in legal immigrant admissions. Currently, the annual cap for immigrant admissions is 675,000 (excluding immediate relatives of US citizens), only 5,000 of which are available for employment-based admissions for low-skilled workers.
True-False 1 point each

T 7. A labor union is an example of an institutional force.

T 8. For males, the income effect of a change in wages is larger than the substitution effect.

T 9. On average, Germans work more hours per year than Americans.

T 10. The labor force participation rate of prime age males has gradually risen since the end of World War II.

T 11. People who are temporarily laid-off from their jobs and do not search for work are considered employed.

T 12. Increases in their wage rate have no measurable impact on the number of children women have.

T 13. When labor is a small share of total cost, the demand for labor tends to be rather inelastic.

T 14. Capital tends to be a complement to unskilled labor and a substitute for skilled labor.

T 15. The efficiency wage theory argues that productivity influences wages.

T 16. Fixed costs of labor result in firms using lay-offs rather than reductions in working hours when a recession occurs.

T 17. The federal minimum wage covers all workers in the private sector.

T 18. Card and Krueger argue that increases in the minimum wage have greatly reduced the employment level of teenagers.

T 19. Labor monopsonies increase firm’s profits and as a result the wages of their workers.

T 20. The higher the discount rate/interest rate, the more likely people are to engage in investments in human capital.

T 21. A worker who believes that screening and not human capital explains earnings differences would not attempt to acquire human capital.

T 22. Seniority reduces the degree of firm-specific on-the-job-training.

T 23. In general, for jobs within a firm, the higher they are on the job-ladder, the more likely they are to be filled from within (makes) rather than hired.

T 24. Statistical discrimination means that employers sacrifice profits for their taste for discrimination.
25. Tournament theory presents the idea that future potential earnings will result in increased productivity today.  

26. Since smaller firms pay lower wages, they tend to be more likely to have fringe benefits.  

27. The Law on One Wage usually does not hold due to market imperfections.  

28. Dunlop presented a theory that labor unions should be viewed as political organizations responding to the wishes of the median member.  

29. Union bargaining power is the Union's Cost of Disagreeing/Union's Cost of Agreeing.  

30. A law that limits the right of workers to strike reduces management's bargaining power.  

31. In general, about two percent of work-time in America is lost due to strikes.  

32. An increase in the price of union services will reduce the demand curve for union services.  

33. Approximately 33% of American workers belong to a labor union.  

34. The least intrusive form of third-party intervention is fact-finding.  

35. According to the exit/voice theory, unions help productivity by reducing turnover.  

36. In general within a firm, unions tend to reduce the dispersion of wages.  

37. The Industrial Workers of the World were a "bread-and-butter" union.  

38. Procurement contracts made it harder for unions to organize.  

39. The trade-off implied by the Phillips curve is only a long-run phenomenon.  

40. Discouraged workers are not counted as members of the labor force.  

41. Experience feature of the Unemployment insurance results in experienced workers receiving greater benefits when they lose their jobs.  

42. Unemployment insurance reduces the amount of time one will search for a job.  

43. The McCall model of job search predicts shorter periods of job search during periods of recession.  

44. The current United States unemployment rate is between 3.5 and 4.0 percent.
45. (Two 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.
Based on the migration readings and our discussion, please summarize the impact of immigration on the labor market in the United States, paying careful attention to both high skill and low skill workers. Then discuss the impact of the above legislation on the labor market of the United States. Would you favor such a plan? Discuss.

- Note that impact is primarily on low skill workers whose wages will fall even more.
- Program will increase level of immigration.

Answer:

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Answer (10): (-4)