1. a. There are three basic types of unemployment. List them and in a sentence or two describe each one.

- Cyclical - Due to the business cycle change, in aggregate demand lead to deficient demand for labor and unemployment.
- Structural - Mismatch of people and jobs. Mismatch due to skills or geography.
- Frictional - The search process associated with finding a job. It takes time.

b. In the graph to the right, please draw a Beveridge Curve. Make sure the curve goes through pt. X. Label the axes, but you do not need to number them.

c. Suppose we move along the Beveridge Curve to the right. Which if any of the three types of unemployment would be affected? Would they increase or decrease?

d. Suppose the government were to use fiscal policy to reduce unemployment. Which type of unemployment might this reduce? Cyclical creates more jobs.

e. Show what impact the fiscal policy would have on the Beveridge Curve. Label it as Fisc. Pol.

f. Suppose the government were to use monetary policy to reduce unemployment. Which type of unemployment might this reduce? Cyclical creates more jobs.

g. Show what impact the monetary policy would have on the Beveridge Curve. You may show this from the original point X. Label this as Mon. Pol.

h. Take a type of unemployment that was not mentioned in either d or f. Cite how that type of unemployment might be reduced through government policy.
2. For each of the situations described below, explain whether the action is legal or illegal, the relevant law or court decision that makes the action legal or illegal and why the action is legal or illegal.

a. The manager at Home Depot refuses to hire women because he believes that customers prefer to buy hardware from men.

Illegal. The Civil Rights Act states you can't discriminate on the basis of gender as well as race and religion (color & national origin as well).

b. The manager at Home Depot refuses to hire homosexuals because he believes that customers prefer to buy hardware from heterosexuals.

Legal. Really, there is no specific act that makes this legal, but the Civil Rights Act does not cover homosexuals.

c. The Teamsters (the truck drivers' union) go on strike for higher wages and refuse to deliver gasoline. President Bush orders the Teamsters to return to work as it his belief that the strike is endangering the nation's health. (Discuss President Bush's action.)

Legal. The Taft-Hartley Act gives the President to declare a National Emergency Strike and order workers to return to work. The President can only do this if it is endangering the nation's health and safety.

d. As you may have heard, the National Hockey League (NHL) season was cancelled. (Probably was the last chance for my rapidly aging Detroit Red Wings to win another Stanley Cup!) Suppose Mike Illitch, the owner of the team bribes Steve Yzerman, one of the team's players and Illitch's employee, to go to the NHL union meetings and report back to Illitch what the players will settle for. (Discuss Illitch's bribe.)

It is illegal. The Wagner Act (National Labor Relations Act) makes it illegal for an employer to hire spies to infiltrate a union.
3. Suppose we have an economy with two sectors; autos and food. The market for labor is given below.

Wages

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| Wages |

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| Food |

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a. Suppose the workers in the auto industry form a labor union. Show the impact the union has on wages and employment levels in the auto industry through supply and/or demand.

[Diagram: Shift in supply with union acting as a monopoly, raising wages and reducing employment]

b. What is meant by the term “spillover effect?” Please show it and label it carefully as the spillover effect.

[Diagram: Workers in the auto industry lose their jobs, find work in the food industry, increasing supply of labor and reducing wages]

c. What is meant by the term “threat effect?” No need to show it graphically, but discuss in terms of the two industries.

[Text: Workers in the auto industry get a wage increase due to the union, the non-union workers in the food industry might threaten to form a union if they aren’t given a raise as well]

d. There are a range of estimates of the impact of unions on the wages of their members. Please give a number within the range discussed in class or the text.

[Number: 6 - 20% were extremes of union effect (6-15%, but 20% if we don’t correct for other factors)]

e. Circle the best answer

i. Unions have a bigger impact on wages in the private rather than the public sector

ii. Unions have a bigger impact on the wages of less educated workers than on more educated wage workers.

iii. both i and ii are correct

iv. neither i nor ii is correct
Multiple Choice. Circle the best answer. Two points each.

4. Over the last several decades
   a. the labor force participation rate of males has declined and so has the overall adult labor force participation
   b. the labor force participation rate of males has increased and so has the overall adult labor force participation
   c. the labor force participation rate of females has increased and so has the overall adult labor force participation
   d. the labor force participation rate of females has increased but the overall adult labor force participation has declined.

5. In the United States in the period 1900-1940 we saw
   a. a decrease in the workweek mainly due to the income effect
   b. a decrease in the workweek mainly due to substitution effect
   c. both the income and substitution effects equally caused the decline.
   d. the workweek did not decline in this period.

6. An increase in the wage rate would cause a person’s budget line to
   a. move farther out on the horizontal axis.
   b. move farther out on the vertical axis.
   c. shift farther out in a parallel fashion to the original line.
   d. shift closer to the origin in a parallel fashion to the original line.

7. Which of the following statements about the United States, Japan and Germany is false?
   a. The average workweek in the United States is the highest of the three nations.
   b. The average workweek in Japan has fallen substantially in recent years.
   c. The average workweek in Germany has risen substantially in recent years.
   d. All of the statements are true.

8. Which of the following statements about the labor force participation rate of women is true?
   a. white women have a higher labor force participation rate than black women.
   b. married women have a higher labor force participation rate than single women.
   c. the labor force participation rate tends to rise and then fall with age from 16 to 65.
   d. all of the above statements are true.

9. The text presented several critiques of the theory of the demand for labor. They included all of the following except for
   a. output could depend on wages.
   b. some firms don’t maximize profits.
   c. both of these were in fact given.
   d. neither a nor b were given in the text.
10. The work of Grilliches pointed out that
a. Capital and skilled labor were complements
b. Capital and unskilled labor were complements
   c. Capital was a substitute for both skilled and unskilled labor
   d. Capital was a complement to both skilled and unskilled labor.

11. Let us say that there are 130 million workers in the American labor force and that the
elasticity of demand for labor is -.3. If we increase payroll taxes so firms find the cost of
labor rises by one percent, then we would predict
a. the number of workers to rise by 1.3 million
b. the number of workers to fall by 1.3 million
   \[
   \frac{\partial \Delta L}{\partial \Delta w} = -0.3
   \]
   \[
   \frac{\partial \Delta L}{\partial w} = -0.32
   \]
c. the number of workers to fall by 490,000.
d. none of the above.

12. In discussing the work that Markus Scheuer and I did about the Great American Job
Machine, we found that the 1990s saw a large number of jobs created in all of the
sectors listed below except
a. manufacturing
b. health care administration
   c. business services/temporary workers
   d. retailing.

13. The United States federal minimum wage
a. recently was raised to $6.30 per hour.
b. did not have a negative impact on teen employment according to Card and Kreuger
c. applies to all workers in the labor force.
d. is earned, for the most part, by people who are in poverty.

14. If we look at the monopsony model of labor, firms hire the quantity of labor where
a. the marginal cost of labor intersects the supply curve.
b. the supply of labor intersects the demand for labor.
c. the supply of labor intersects the marginal revenue product of labor.
d. the marginal cost of labor intersects the marginal revenue product of labor.

15. Suppose someone received a college degree. Their productivity and wages would be
   predicted to rise
a. only by human capital theory.
b. by both human capital and screening theory.
c. only by screening theory.
d. only by signaling theory.

16. Under the human capital model, a higher interest rate
a. reduces future benefits to a larger degree than costs.
b. increases the probability of obtaining human capital.
c. has no impact on costs after the current year.
d. none of the above.
17. Which of the following groups, all else held equal, is less likely to acquire human capital?
   a. older workers compared to younger workers.
   b. men compared to women.
   c. people from higher income families, rather than lower income families.
   d. none of the above.

18. In general,
   a. employers pay for both firm specific and general on-the-job training.
   b. employees pay for both firm specific and general on-the-job training.
   c. employers pay for firm specific and employees for general on-the-job training.
   d. employees pay for firm specific and employers for general on-the-job training.

19. Given our discussion in class, within an internal labor market wages are set using all of the following except
   a. inertia
   b. community wage surveys
   c. social status
   d. all of these are used in internal labor markets.

20. In looking at the work of Lazaar, we saw that
   a. people are more likely to change their job within a firm after five years than one year.
   b. firms tend to promote from within rather than hire from outside the higher one goes up the job ladder.
   c. both a & b are correct
   d. neither a nor b is the case.

21. The gap between the wages of CEOs and other workers is greater in the United States than in other developed Western nations. Which of the following best explains this?
   a. human capital
   b. screening hypothesis
   c. signaling
   d. tournament theory.

22. Becker’s Theory of discrimination deals with all of the following except
   a. employers sacrifice profit due to a taste for discrimination
   b. employers give the attributes of a minority group to an individual member of the group.
   c. employers won’t hire as many minority workers if they perceive that customers do not want to deal with minorities.
   d. employers won’t hire as many minority workers if they perceive that their employees don’t wish to work with minorities.
23. Which of the following is **not** an explanation of why women earn less than men?

a. occupational segregation
b. differences in levels of education
c. differences in levels of training
d. statistical discrimination

24. Under the idea of comparable worth

a. all workers would receive the same wage
b. only market forces would set wages.
c. both a and b would occur under comparable worth
d. neither a nor b would occur under comparable worth

25. It is illegal to set quotas for races and gender in hiring. The Supreme Court case that made the relevant ruling was

a. Apex Hosiery
b. Bakke
c. Griggs
d. Sherman

26. Suppose that General Motors signs a contract with the United Auto Workers agreeing that all employees will have to be union members. This is an example of

a. a closed shop
b. an open shop
c. a right-to-work

27. The United Auto Workers are an example of a **union** and not surprisingly were prior to the merger of the AFL and CIO were a member of the

a. craft, AFL
b. craft, CIO
c. industrial, AFL
d. industrial, CIO

28. The idea of scientific management (Taylorism) is that firms

a. will pay a higher wage to increase productivity.
b. can measure MRP and pay workers accordingly.
c. that workers in supervisory position should have status and be paid more.
d. all of the above.

29. Under the model presented in class, a union’s bargaining power is defined as

a. management’s cost of agreeing / management’s cost of disagreeing
b. management’s cost of disagreeing / management’s cost of agreeing
c. union’s cost of agreeing / union’s cost of disagreeing
d. union’s cost of disagreeing / cost of agreeing.
30. Unionization quadrupled in the period 1932-45 due to all of the following except
   a. more favorable labor legislation.
   b. government procurement contracts
   c. the rise of craft unionism
   d. all of the above were factors in increasing union membership.

31. The Borjas reading noted all of the following except for
   a. the gap in the earnings between immigrants and the native born population
      disappears in one generation.
   b. the ratio of immigrant wages to native born wages has fallen in recent decades.
   c. there has been a shift in the nation of origin of immigrants in recent decades.
   d. all of the above were noted by Borjas.

32. Immigration into the United States has
   a. reduced taxes for the native born population
   b. increased consumer prices due to greater demand
   c. made upper income native born people better off on average.
   d. made lower income native born people better off on average.

33. In terms of the impact of immigration on the wages of the native population, spatial
   analysis
   a. finds a substantial impact on less skilled workers
   b. fails to account for the fact that native-born workers vote with their feet
   c. is not relevant after the passage of IRCA
   d. is only relevant for Mexican immigrants.

34. The changes in U.S. border policy with IRCA, Operation Gatekeeper and Operation
   Blockade resulted in
   a. a decrease in the cost of a “coyote”
   b. a decrease in the length that illegal immigrants stay in the United States
   c. a decrease in the number of deaths due to fewer attempted border crossings
   d. a decrease in the wage of immigrants that make it to the United States.

35. Employees of the United States federal government
   a. are not allowed to go on strike at all.
   b. may go on strike if they are civilian, but not military employees.
   c. may go on strike if they are not engaged in providing health, safety or protective
      services.
   d. only if they reject the settlement of a fact-finder.

36. The demand for union membership depends on
   a. the cost of organizing workers.
   b. the cost to the union of representing the worker
   c. the perceived benefit of union membership.
   d. all of the above affect the demand for union membership.