1. a. To be promoted to lieutenant, police officers in a city police department first have to pass a written aptitude test. This requirement was challenged in court by several black officers on the grounds that the test unfairly discriminated against blacks. These officers showed the test had a disparate effect on the promotion of blacks. What would the city have to show to win the case?

Choice/No Choice The test showed abilities that were necessary to do the job.

b. What is the relevant law or court ruling?


c. What is a comparable worth law and how does it work?

A method to determine the value (wages) of a job based on the idea that jobs of comparable value should receive comparable wages.

d. Cite one argument from the text in favor of comparable worth laws and one against?

For: It would bring the wages of women in line with those of men. It has worked in Australia & Great Britain.

Against: If women prefer certain jobs supply and will let which determine. It will be hard to fill some occupations. Would raise labor costs.
2. Gordon is trying to decide what to do with the rest of his life. He can immediately take a job as a cook at a salary of $25,000 every year he works. If Gordon decides to attend the Homer Simpson Culinary Institute, he will pay $20,000 in tuition this year. It is a one-year program. After he is trained he will be a chef and earn $50,000 per year.

We will assume the current year is 2007 and Gordon only plans to work until the end of 2009. For simplicity, we will assume it is January 1, 2007, so no need to worry about fractional years.

Assume a 12% discount rate.

a. Calculate the present value of being a cook. Show your work

\[
\text{Present Value of Cook's Salary} = \frac{25,000}{(1.12)^1} + \frac{25,000}{(1.12)^2} = \frac{25,000}{1.12} + \frac{25,000}{(1.12)^2} = 22,321 + 19,990 = 42,311
\]

b. Calculate the present value of being a chef. Show your work.

\[
\text{Present Value of Chef's Salary} = \frac{-20,000}{(1.12)^1} + \frac{50,000}{(1.12)^2} = \frac{-20,000}{1.12} + \frac{50,000}{(1.12)^2} = 44,643 + 39,860 = 84,503
\]

C. Which career should he choose? **WHY?**

Cook has higher present value.

D. Why do we have use a discount rate? Cite two reasons.

- Time value of money (can invest)
- Time preference (prefer money now)

E. Give an example of something that might be counted in the social rate of return to being a chef, but not Gordon’s private rate.

Subsidized tuition ( tuition, g)

Additional taxes Gordon pays less likely Gordon on welfare
3. a. Suppose that there are a number of Chinese students on campus at OWU. None of them have cars. They would like to pick up some extra money cooking Chinese food. There is only one Chinese restaurant in Delaware, the Canton Restaurant. It is the only employer of people who cook Chinese food and the only place the students could work. What is the term for only employer of labor?

Their supply of labor is given below as well as their Marginal Revenue Product.

<table>
<thead>
<tr>
<th>Wage</th>
<th>Labor</th>
<th>MRP_L</th>
<th>W + L</th>
<th>MC_L</th>
<th>M2RL</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.00</td>
<td>1</td>
<td>9.50</td>
<td>5</td>
<td>3</td>
<td>9.50</td>
</tr>
<tr>
<td>5.50</td>
<td>2</td>
<td>8.50</td>
<td>6</td>
<td>4</td>
<td>8.50</td>
</tr>
<tr>
<td>6.00</td>
<td>3</td>
<td>7.50</td>
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<td>6.50</td>
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<tr>
<td>7.00</td>
<td>5</td>
<td>5.50</td>
<td>9</td>
<td>7</td>
<td>5.50</td>
</tr>
</tbody>
</table>

b. What is the wage Canton will pay? $6

c. How many workers will they employ? 3

d. If the labor market were perfectly competitive, what would be the equilibrium wage? $6.50

e. If the labor market were perfectly competitive, how many workers would be employed? 4
4. a. What is the current federal minimum wage?

\[ \$ \frac{15}{2} \]

b. When we speak of the covered sector, please give an example of a worker who would be considered covered. (specific occupation or industry, please.)

- Clerks at Kmart
- Cable installation workers at Time Warner
- Any one not employed in C.

C. When we speak of the uncovered sector, please give an example of a worker who would be considered uncovered. (specific occupation or industry, please.)

- Executives
- Administrators
- Some agic employees
- Employees of small retail firms

2 / 2

d. In the space below draw the supply and demand for labor in two separate graphs. LABEL THE AXES AND IN EACH CASE LABEL SUPPLY AND DEMAND AS \( S_1 \) and \( D_1 \). Please show an equilibrium at the current minimum wage.

![Graphs](image)

e. Show the impact of an increased minimum wage in the covered sector.

\[ \text{wage} \rightarrow \frac{15}{2} \]

3 / 2

f. Show the impact of an increased minimum wage in the uncovered sector.

3 / 2

g. What happened to the wage in the uncovered sector? Why?
5.a What is meant by the Law of One Wage?

In a perfectly competitive labor market, all firms will pay the same wage for a particular type of labor.

b. What is meant by efficiency wages?

The marginal product of labor is dependent on the wage rate paid.

c. Suppose that Ed and Fred are both employed as accountants. Ed works at Ediface Corp. and Fred for Let Freedom ring. Ed makes $30,000 per year and Fred $40,000. Could efficiency wages account for the difference in earnings? Explain.

Yes, Let Freedom Ring could pay more to attract better workers, reduce turnover, hire employees, repay gift of

reduce turnover, hire employees, repay gift of

d. What is meant by the idea of compensating wage differentials?

Wage differentials to account for the net attractiveness of an occupation.

e. Could compensating wage differentials explain the difference in earnings? If so, give an example of how this would explain the difference.

Yes, maybe Let Freedom Ring is located in a high crime area, high cost of living city, has unpleasant boss, etc. So would pay more.
6. I decided to play around with FERRETT. I looked at people in the state of South Dakota, where I once went with a group of OWU students. According to the 2006 CPS data American Indians who worked full-time in South Dakota made $509 a week and Whites who worked full time made $672.

a. Becker stated there were three types of discrimination. State them.

- employer
- employee
- customer

b. Explain how two of these types of discrimination could be used to explain the difference in the earnings of American Indians and whites in South Dakota.

- employers might not want best employee among American Indians, will sacrifice it to indulge if American Indian will sacrifice it to indulge
- While whites might not wish to work with whites, if employers need the minority whites, then the demand for American Indians will be lower and wages will be lower. If customers prefer to deal with whites, then firms will hire whites only at lower wages.

b. What is meant by statistical discrimination?

Discrimination that occurs when employers attribute characteristics of a group to an individual worker.

d. Explain how this might account for the difference in earnings.

If employers believe in general American Indians are not as well educated as whites they will reduce their demand for their labor. Hence, wages for Amer. Ind. will fall.
Multiple Choice. Two points each. Please circle the best choice.

76. Minimum wage workers
   a. Are mostly people in poverty.
   b. Are about 20% of the American labor force.
   c. According to Card and Krueger, did not lose their jobs when the minimum wage increased.
   d. Automatically receive an increase in their wages when inflation occurs.

77. Which of the following is an actual example of labor monopsony?
   a. Coal miners.
   b. Major League Baseball players with less than six years experience.
   c. Corporate CEOs.
   d. Bread truck drivers.

78. According to the text, one of the reasons why the Law of One Wage might hold is:
   a. Unions
   b. Homogeneity of workers
   c. Imperfect information
   d. Costly mobility in switching employers.

11. Firms have job ladders within internal labor markets in order to
   a. Facilitate firm-specific training.
   b. Reduce discrimination.
   c. Eliminate poorly performing employees.
   d. Create jobs in the secondary labor market.

12. Which of the following is NOT a reason why firms pay efficiency wages?
   a. It may be seen by workers as a gift and be repaid with harder work.
   b. It reduces turnover.
   c. It reduces wage discrimination.
   d. It can be used to recruit a more productive work force.

13. Which of the following statements about the age and earnings is true?
   a. Currently, on average, men with only a high school degree earn more than women with a college degree.
   b. The increase in earnings with age is more rapid (steeper) for the more educated workers.
   c. Both a and b are true.
   d. Both a and b are false.
13. In terms of general on-the-job training, usually
   a. It is usually the worker who pays for it.
   b. The Marginal Revenue Product of Labor exceeds the wage while training occurs
   c. The Marginal Revenue Product of Labor is less than the wage while training occurs
   d. The Marginal Revenue Product of Labor exceeds the wage after training occurs.

14. Obtaining an MBA degree will be a more attractive investment
   a. the higher the market rate of interest
   b. the larger the earnings of persons with a BA degree
   c. the older a person is
   d. the longer the person expects to work.

15. Which of the following was not given as a reason for why the earnings of CEOs has risen so much in recent years?
   a. High Marginal Revenue Products due to the profits that can be made.
   b. Tournament Theory.
   c. The incentives for Boards of Directors to award high salaries.
   d. The shattering of the Glass Ceiling.

16. I sent you an article about students at Duke. Suppose they will get good jobs with a Duke University degree, regardless of what they learned. This would be an example of
   b. Human Capital
   c. Signaling. They signal they are bright
   d. Compensating Wage Differentials.

17. Defined benefit pension plans
   a. Are preferred by workers who believe they can manage their own money very well
   b. Must be fully vested after no longer than seven years.
   c. Do not give workers an incentive to stay with a firm.
   d. Or defined contribution pension plans must be offered to all full-time United States employees.

18. Fringe benefits
   a. Tend to be tax free in the United States.
   b. Give Americans more days of paid vacation than Europeans.
   c. Become more desirable when tax rates fall.
   d. All of the above are true.
19. Who said that because there were so many workers in bad jobs (noncompeting jobs) that compensating wage differentials didn’t really exist?
   a. Becker
   b. Mill
   c. Rosen
   d. Schultz

20. Unemployment Compensation (Insurance)
   a. Is only available to workers who agree to seek work
   b. Covers the vast majority of the unemployed
   c. Reduces the number of weeks people search for work
   d. Reduces the unemployment rate.

21. Occupational licensing does all of the following except
   a. Increase the earnings of workers.
   b. Improve the quality of the product.
   c. Increase the ability of workers to move.
   d. Restrict training.

22. The case that eliminated quotas in higher education involved
   a. Bakke
   b. Becker
   c. Rosen
   d. Ward Cove

23. Currently, women who work full-time make approximately what percent of what a man working full-time earns?
   a. 58%
   b. 68%
   c. 78%
   d. 88%

24. The study by Bertrand and Mullainanathan showed that when resumes were sent out with white sounding and black sounding names
   a. Blacks got more calls for interviews.
   b. There was no difference in the rate at which people were called for interviews.
   c. Whites got more calls for interviews.

25. The United States Civil Rights Act
   a. Was passed in 1863
   b. Permits discrimination based on age
   c. Covers all employers, regardless of size.
   d. All of the above are false.

26. Save a tree. Let’s not use one more page. So this is not a multiple choice. What do you call the place where a worker enters an internal labor market?