

**University of Ottawa  
Department of Economics**

**ECO2114A**

**Final examination**

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You may not consult with any written documents whatsoever, and no conversation is permitted while the examination is in progress. It is forbidden to look at other students' papers. There are 35 multiple choice questions and 31 points worth of short answer questions. As far as the written questions are concerned, I have gone over the responses in class in a very slow, clear, and explicit fashion. For the multiple choice questions, it may not necessarily be the case that four of the responses are totally wrong, and one of them is unambiguously correct. In such situations, select the best answer. Respond to the multiple choice questions on the scan-tron sheet. Please grid in your name and your student number by filling in the appropriate ovals in each column. You must grid in the ovals below each digit of your student number, and below each letter of your name. Respond to the written questions in the examination booklet.

### **Multiple Choice questions**

1. A number of studies have examined the impact of trade patterns (imports and exports) in the 1980s on the distribution of earnings in North America. They have tended to find that:

- a) Trade patterns do not have an impact
- b) These studies have been inconclusive
- c) Trade patterns have tended to lower the demand for less-skilled labour
- d) Trade patterns have tended to raise the demand for less-skilled labour
- e) Trade patterns dominate the effect of technological change in determining wages

C

2. How do employers typically finance training of their employees?

- a) By paying workers a wage which is greater than the value of the marginal product during the early stages of the employment relationship.
- b) By paying workers a wage which is lower than the value of the marginal product during the later stages of the employment relationship.
- c) By charging the new employee/trainees an up-front, out-of-pocket fee.
- d) By paying workers a wage which is greater than the value of the marginal product during the later stages of the employment relationship.
- e) By paying workers a wage which is lower than the value of the marginal product during the early stages of the employment relationship.

E

3. According to the signalling theory of education,

- a) The level of education or training directly measures the productivity of the worker
- b) The level of education or training of one worker affects the productivity of her co-workers
- c) Education and training function as goods that generate utility directly from the worker's perspective.
- d) Education and training do not contribute directly to productivity, but as a filter to screen candidates for their suitability for the job.
- e) The social rate of return on education is greater than the private rate of return.

D

4. The essence of human capital theory is that:

- a) Firms spend money on their capital stock and equipment in order to labour to become more productive
- b) Investments are made in human resources so as to improve their productivity and therefore their earnings
- c) All workers who want to increase their salary should obtain a university diploma

- d) Workers invest in it in order to send a signal to potential employers regarding their true productivity levels
- e) None of the above

B

5. The shape of the 'age-earnings' profiles reflects all of the following except:

- a) Earnings tend to increase with age but at a decreasing rate
- b) Individuals generally continue to make human capital investments in the form of on-the-job training and work experience once they have entered the labour force
- c) The earnings of individuals with higher levels of education are generally higher than those with fewer years of education
- d) Older, more experienced workers have higher wage profiles (i.e. displaced upward) than do younger workers
- e) All of the above statements apply

D

6. The decision to invest in human capital does not involve which of the following?

- a) The costs of tuition and books
- b) Direct expenditures
- c) Foregone earnings
- d) Projected earnings
- e) None of the above, as they all apply

D

7. Fill in the blanks of the sentence that deals with age-earnings profiles. Earnings \_\_\_\_\_ with age and thus with labour market experience until age \_\_\_\_\_ is reached, and then \_\_\_\_\_.

- a) Decrease; 40 to 50; increase
- b) Decrease; 45 to 50; increase
- c) Increase; 40 to 50; decline
- d) Increase; 45 to 55; increase
- e) None of the above

C

8. Fill in the blanks of the following sentence. \_\_\_\_\_ in the relative supply of \_\_\_\_\_ workers would \_\_\_\_\_ their wages.

- a) Increases; skilled; increase
- b) Decreases; unskilled; depress

- c) Increases; unskilled; depress
- d) Decreases; skilled; depress
- e) None of the above

C

9. Which of the following refers to general training?

- a) It is training that can be used only in the firm that provides it
- b) It is training that can be used at various firms
- c) It is training that can be generalised to a wide range of jobs
- d) It is training designed for generalists
- e) It is training designed for workers in the upper income bracket.

B

10. Fill in the blanks of the following sentence. In the absence of \_\_\_\_\_, general training will be financed by the employees.

- a) Bonding arrangements
- b) Government subsidies
- c) Job market signalling
- d) Specific human capital
- e) None of the above

A

11. Which of the following equations corresponds to the most common form of the empirical earnings equation?  $S$  denotes the number of years of schooling,  $EXP$  denotes the number of years of experiences,  $AGE$  denotes the age of the worker,  $\epsilon$  denotes a disturbance term,  $r$  denotes the rate of return on education, and  $\ln$  denotes the logarithmic operator.

- a)  $\ln Y = \alpha + r \cdot S + \beta_1 \cdot EXP + \beta_2 \cdot EXP^2 + \epsilon$
- b)  $\ln Y = \alpha + r \cdot S + \beta_1 \cdot EXP + \beta_2 \cdot S^2 + \epsilon$
- c)  $\ln Y = \alpha + r \cdot S + \beta_1 \cdot AGE + \beta_2 \cdot AGE^2 + \epsilon$
- d)  $\ln Y = r \cdot S + \beta_1 \cdot EXP + \beta_2 \cdot EXP^2 + \epsilon$
- e)  $Y = \alpha + \ln r \cdot S + \beta_1 \cdot EXP + \beta_2 \cdot EXP^2 + \epsilon$

A

12. It is indisputable that the degree of inequality in the distribution of wages has risen drastically in North America over the past 25 years or so. The most widely accepted explanation is that:

- a) The returns to education and to unobserved skill have increased
- b) The decline of institutions that tend to raise the wages of lower-paid workers
- c) International trade and globalisation
- d) Increased exploitation of labour by unscrupulous multi-national firms
- e) Cuts in social programs such as social assistance and employment insurance

A

13. Which of the following statements is true? Occupational wage premia (or premiums) refer to:

- a) The percentage differences in earnings associated with a certain occupation relative to other occupations after having controlled for other explanatory factors
- b) The percentage differences in earnings associated with working the most common occupation
- c) The percentage differences in earnings associated with a certain occupation
- d) Rents accruing to workers who benefit from imperfect competition in the labour market
- e) The rate of return on human capital investment as measured across occupations

A

14. Which of the following statements is true? Efficiency wages:

- a) Refer to wages at the level of a competitive equilibrium
- b) Constitute rents to the workers who receive them
- c) Are generated by the intersection of labour supply and labour demand
- d) Clear the labour market as there is no unemployment
- e) None of the above

B

15. Inter-firm wage differentials could stem from all of the following except:

- a) Non-pecuniary differences in the nature of jobs
- b) Short run demand changes
- c) Non-competitive factors operating in markets
- d) Long run, persistent supply and demand imbalances
- e) None of the above, as they should not exist in competitive labour markets

D

16. The labour market in the public sector is subject to various peculiarities which include all of the following except:

- b) Monopsony situations
- a) Political constraints
- c) Inelastic demand for labour

- d) A high degree of unionization
- e) A profitability constraint

E

17. Which of the following statements regarding the political constraint in the public sector is false?

- a) Tax revenues continue to flow in even if the services are not provided in the event of a strike
- b) It replaces the profit constraint facing private sector employers
- c) Public sector employers typically do not have to pay the going wage
- d) The public sector employer can compel payment for the services that its workers provide
- e) None of the above

C

18. Which of the following statements concerning migration behaviour is false? All other factors held constant:

- a) Younger workers are expected to migrate more than older workers
- b) Migration is more likely to occur out of higher unemployment areas
- c) Migration is more likely to occur during recoveries than during recessions
- d) Migration is more likely to occur from Quebec than from other provinces
- e) Migration is more likely to be observed when the distances are long

D

19. Which of the following statements concerning migration behaviour is false?

- a) In the long-run, it will generally erase inter-regional disparities in wages
- b) It is modelled as a marginal cost and marginal benefit decision
- c) It is more likely to occur when the wage gains are expected to be high
- d) It is affected by the availability of information on wages and employment conditions
- e) Migration is dampened by imperfect capital markets which make it difficult for many individuals to finance a move

A

20. Basic economic theory suggests that in the long-run, competitive forces should eliminate pure inter-industry wage differences. If these differences exist, it could be explained by all of the following except:

- a) Non-pecuniary characteristics of an industry
- b) Efficiency wages
- c) Non-competitive factors

- d) Inter-industrial migration of workers
- e) Rent sharing between labour and capital

D

21. According to basic economic theory, how can one assess whether workers in a certain industry are overpaid?

- a) By surveying the workers and asking them whether they think that their wages are too high
- b) By the existence of long queues of qualified workers whenever there are vacancies, and witnessing few quits
- c) By comparing their wages to wage norms in other industries
- d) By comparing the educational attainment of the labour force with that of other workers
- e) By comparing the desirability or the undesirability of their working conditions with those of other workers.

B

22. Which of the following statements concerning efficiency wages is false?

- a) Efficiency wage premia are obtained through union power
- b) Efficiency wage premia are paid voluntarily by employers without pressure from the workers.
- c) An efficiency wage is designed to incite more efficient labour from the worker
- d) Although the efficiency wage is greater than the competitive wage even though the employee is paid the value of her marginal revenue product.
- e) Efficiency wages are sometimes used to support 'industrial policies'

A

23. Suppose that a wage premium is paid to workers throughout the occupational spectrum of an industry - the secretaries, blue-collar workers, and the white-collar workers. This could be constrained as evidence of the existence of:

- a) Compensating differentials
- b) High human capital requirements
- c) Non-competitive factors associated with the industry
- d) A labour-intensive industry
- e) None of the above

C

24. Why might one expect the public sector to pay lower wages, ceteris paribus, than the private sector?

- a) The skills and education levels of these workers is lower than that of their private sector

counterparts

- b) They tend to have a higher degree of job security
- c) They are employed by the public sector, which is not constrained by market forces and a profit-maximizing objective
- d) They are less heavily unionised than their private sector counterparts
- e) The demand for labour in the public sector is often quite wage inelastic

B

25. The empirical literature on the public sector/private sector wage premium has shown that:

- a) Workers in the public sector have equal earnings than workers in the private sector
- b) Workers in the public sector have lower earnings than workers in the private sector
- c) Workers in the public sector have lesser endowments of wage determining factors such as education
- d) All other factors held constant, women in the public sector earn a wage premium compared to women in the private sector
- e) The public sector premium, holding all other factors constant, is higher for skilled and educated workers than it is for lesser skilled workers

D

26. Consider an earnings function. In addition to the usual explanatory variables of experience and schooling, one can include variables for reflect all of the following factors except:

- a) occupational premiums
- b) industry premiums
- c) unobserved heterogeneity premiums
- d) regional premiums
- e) premiums related to non pecuniary benefits

C

27. A number of empirical studies have been published that address the question of the impact of the presence of a Wall-mart store on wages in the local labour market. What have they found in regards to 'the Wall-mart phenomenon'?

- a) Nothing can be determined because of the presence of confounding factors that influence wages.
- b) The presence of Wall-mart in a county does reduce wages in the retail sector as well as in the whole local labour market, although not by very much
- c) The presence of Wall-mart in a county increases wages in the retail sector as well as in the whole local labour market, although not by very much
- d) Wages are low at Wall-mart, but this is par for the course in the retail sector, so there is essentially no effect

- e) Wages are low at Wall-mart, but this is par for the course in the regions where Wall-mart stores tend to be located, so there is essentially no effect

B

28. What is the role of short-run adjustments in determining the wage structure?

- a) They can explain the existence of wage differentials across regions, industries, or occupations even if the labour market is very competitive.
- b) They are necessary in order to efficiency wage differentials to exist.
- c) They are the primary factor generating the public sector/private sector wage differential
- d) they are closely linked to the firm size effect on wages
- e) none of the above

A

29. The phenomena of deregulation and globalisation is most likely to impact:

- a) inter-industry wage differentials
- b) Inter-occupational wage differentials
- c) inter-regional wage differentials
- d) all of the above
- e) inter-firm wage differentials

A

30. The two primary 'levers' that immigration policymakers can manipulate are:

- a) The number of immigrants that are admitted and the conditions they have to meet for admissibility
- b) The fees that are charged to applicants and the number of immigrants that are admitted
- c) The fees that are charged to applicants and the conditions they have to meet for eligibility
- d) The number of immigrants that are admitted and the number of applications that are evaluated
- e) Which individuals file applications and the conditions they have to meet for admissibility

A

31. Assessed classes of immigrants are those who are:

- a) Evaluated on the basis of their likely contribution and success in the labour market
- b) Given a grant in order to start a new life in Canada
- c) Evaluated on the basis of their net worth prior to being admitted into Canada
- d) Evaluated on the gravity of their human rights situation
- e) None of the above

A

32. The point system is one in which points are awarded for:

- a) The salary range that the person was earning before he/she came to Canada
- b) The number of children in the family of the applicant
- c) A set of skills and attributes that the individual has
- d) The type of immigrant class under which his/her application falls
- e) None of the above

C

33. The increase in labour supply that accompanies immigrant inflows may have no adverse effect on wages because of all of the following except:

- a) The supply of lower-skilled labour may become more abundant
- b) Immigration typically causes an increase in labour demand as immigrants purchase goods and services
- c) Immigration activity improves ties with the source country, which can increase demand in the labour market
- d) Importing labour in the form of immigration can serve as a substitute for importing goods produced in their source country
- e) A labour union typically intervenes in order to prevent wages from falling

A

34. Which of the following regions is the most common source of immigrants to Canada?

- a) The far east
- b) The middle east
- c) Europe
- d) North America (the USA and Mexico)
- e) Latin America

A

35. Which of the following statements regarding the demand for labour is false?

- a) In the short run, there is no substitution effect
- b) It depends critically on the technology of production
- c) Only firms that are monopolists in the product market are driven by profit-maximizing behaviour
- d) In the long run, the quantity demanded of labour is set at the level where the marginal rate of technical substitution is equal to the ratio of factor prices.
- e) In the short run, the quantity demanded of labour is set of the level where the marginal revenue product is equal to the wage.

C

### **B. Short answer questions**

1. This question also appeared on the second mid-term examination. I hope that you do better this time. Explain the research design of an experimental research study. The textbook and I both gave an illustration of the self sufficiency project, whose objective was to evaluate the impact of providing social assistance recipients (single mothers with children) with wage subsidies if they accepted a job and retained it for a while. Another illustration that I mentioned was an evaluation of a job-training program for unemployed workers. (5 points)
2. a) With the aid of a graph and words, depict the labour market equilibrium for an employer who is a monopsonist in the labour market. For the marginal worker hired, depict his/her marginal revenue product, reservation wage, and actual wage received. (4 points)
   
 b) Explain why the monopsonist's marginal labour cost curve lies above its supply curve for labour, and why in the case that the employer hires and employs workers in a competitive labour market, those two curves coincide. (3 points)
3. A little over a year ago, the government of Ontario legislated a series of increases in the minimum wage that are scheduled to be implemented over time. Suppose that since then, we observe that teen-age employment has declined. (6 points)
  - a) Explain why it would be fallacious to conclude that the minimum wage law harms employment based on that observation.
  - b) Briefly outline a sounder empirical strategy for evaluating the impact of the minimum wage on low-wage, low-skilled employment.
4. We talked a fair amount in class about the outsourcing of Canadians' jobs to countries where labour costs are lower. Explain why we might not see an all-out, all-included 'race to the bottom', whereby most of us lose our jobs to workers based in foreign lands who earn a fraction of what we earn? (5 points)
5. What are the three primary factors that determine the magnitude of the wage elasticity of demand for labour? These are called Hicks' laws. For each of them, explain how they work. (6 points)

6. What is the most salient feature of Canada's employment insurance system that sets it apart from its counterparts in most other industrialised countries? (2 points)