Department of Economics

Course name:	**Policy Analysis in Labour Econ.**
Course code:	**EC7414**

Examiner:	**Peter Nilsson**
Number of credits:	**7.5 credits**
Date of exam:	**Sunday 29 October 2017**
Examination time:	**3 hours [09:00-12:00]**

Write your identification number on each paper and cover sheet (the number stated in the upper right hand corner on your exam cover).

Use one cover sheet per question. Explain notions/concepts and symbols. If you think that a question is vaguely formulated, specify the conditions used for solving it. Only legible exams will be marked. **No aids are allowed.**

The exam consists of 4 questions. Each question is worth 20 points, 80 points in total. For the grade E 36 points are required, for D 40 points, C 48 points, B 60 points and A 72 points.

Your results will be made available on your "My Studies" account **(**www.mitt.su.se**)** on 17 November 2017 at the latest.

Good luck!

Question 1

a) What is the main trade-off in the design of unemployment insurance (Baily-Chetty formula)?

b) What are the benefits and costs of unemployment insurance as discussed in the literature?

c) How do we measure the relevant benefits and costs?

d) Provide the estimated magnitude of these effects found in the literature.

e) Discuss the empirical strategies used in these measurements. What are the main identifying assumptions?

f) What are the other overlooked aspects of this discussion? How can we measure those?

Question 2

a) Nilsson (2017) examines the long-run effects of a policy experiment in Sweden, which led to a large increase in the number of stores selling "Strong beer". Nilsson estimates the following equation with log earnings as the dependent variable:

$$Y_{r,t,m<21} = \alpha_0 + \beta_3 EXPOSURE_{3,r,t,m<21} + \eta_{r,t} + \eta_{r,m<21} + \eta_{t,m<21} + \varepsilon_{r,t,m<21}$$

What are $\eta_{r,t}$, $\eta_{r,m<21}$ and $\eta_{t,m<21}$, and why (provide examples) are they included in the regression specification?

b) Nilsson also estimates the corresponding Quantile regression version of the equation above for earnings, wages and disposable income. The estimated effects of the policy are presented in the figure below:

Provide a detailed account of the results shown in the figure, and the conclusions Nilsson draws from it.

<u>Question 3</u>

Saez (2010) estimates the elasticity of taxable income with respect to the net-of-tax rate using the bunching technique.

(a) Illustrate graphically why bunching can uncover the elasticity of interest.
(b) Explain how to empirically estimate the extent of bunching.

Question 4

Grönqvist (2012) examine the effects of a reform that affected contraception prices

a) Describe the reform and the empirical strategy Grönqvist (2012) use to examine the effects of the subsidy.
b) Provide a summary of the results of Grönqvist (2012).
c) Discuss the conclusions from his back-of-the-envelope calculations of the cost and benefits of the reform. According to Grönqvist some potentially important benefits and costs that are not considered in his cost-benefit analysis. Provide examples of and discuss some of these potentially important unmeasured benefits and costs.