



**Stockholm
University**

Department of Economics

Course name: Labour Market Economics
Course code: EC2102
Type of exam: Main
Examiner: Ines Helm and Ann-Sofie Kolm
Number of credits: 7,5 (hp)
Date of exam: January 12, 2019
Examination time: 13:00-16:00 (3 hours)

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

Start each new question on a new answer sheet.

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 6 questions with 100 points in total. For the grade E 40 points are required, for D 50 points, C 60 points, B 75 points and A 90 points.

Your results will be made available on your Ladok account (www.student.ladok.se) within 15 working days from the date of the examination.

Good luck!

- Q.1) (24 points) This question is about individual labor supply decisions.
- a) Shortly define what role the income and substitution effects play in the labor supply decision.
 - b) According to the life cycle model of labor supply, different types of wage changes can have different effects on labor supply over the life cycle. Explain, the expected effects on labor supply (focusing on both income and substitution effects) following
 - i) an evolutionary increase in wages along the expected wage-age profile;
 - ii) an unexpected increase in wages that shifts the complete wage-age profile (i.e. at every age the worker earns a higher wage);
 - iii) an unexpected increase in the wage rate at one particular point in life, not affecting the expected evolutionary wage rate at any other point in life.
- Q.2) (14 points) Ernst Fehr and Lorenz Goette tested one particular prediction of the life cycle model of labour supply by analysing the labour supply behaviour of bicycle messengers in a study titled “Do workers work more if wages are high?”.
- a) Which of the 3 types of wage changes provided in question Q.1)b) are Fehr and Goette analysing?
 - b) Explain the approach Fehr and Goette are using to test this particular prediction of the life cycle model and their findings. Do they find evidence for that prediction of the life cycle model of labor supply?
- Q.3) (12 points) State whether the following statements are true or false. Shortly explain your answer in 1-2 sentences.
- a) Labor Demand is more elastic in the long run than in the short run.
 - b) In a simple model of labor demand with a competitive firm that uses capital and labor in production, the effect of a reduction in wages on the amount of capital used in production is ambiguous in the long run.

- c) In a perfectly competitive model, the effects of introducing a payroll tax on equilibrium employment and wage outcomes depend on whether the government decides to tax the firm or the worker.
 - d) In a monopsony with a non-discriminating monopsonist the labor supply curve equals the marginal cost of labor.
- iv)

Q.4) (30 points) This question is about the wage distribution.

- a) The Gini-coefficient can be used to measure wage inequality. How is this measure formally defined? Also provide a graphical illustration.
- b) The P90/P10 and P50/P10 are also common measures of wage inequality. Explain the measures.
- c) What are the pros and cons with the two types of measures in a) and b)? Are there situations where one of the measures is preferred to the others?
- d) Discuss three established models that can explain the observed long right tail in the wage distribution. What are the key features of the models and how can they explain this asymmetry in the wage distribution?

Q.5) (10 points) Discuss the search and matching models.

- a) Shortly discuss the phenomenon of search frictions and the implications they may have for the labour market outcomes.
- b) What does the Beveridge curve measure?

Q.6) (10 points) This question is about human capital accumulation in terms of on-the-job training.

- a) Define general and firm specific human capital.
- b) Discuss who pays for investments in human capital that leads to general human capital and to firm specific human capital.