SUNY-Stony Brook. Economics Department
Economics 337: Spring 2002

Advanced Labor Theory

Real (likely) Exam Questions for May 15, 2002.

1. **Multiple choice and short questions.** In the real exam, no explanation, no credit.

   (a) When a firm provides specific training, what happens to the gap between the postraining wage and the marginal product as the market interest rate increases?

   (a) It increases.
   (b) It decreases.
   (c) It stays the same.
   (d) It persists for a longer period of time.
   (e) Not enough information is provided to answer the question.

   (b) Can you explain the *added worker* and the *discouraged worker* effect, which both can happen during a recession?

   (c) If average lifetime earnings of both high school and college graduates double, then the number of people attending college will consequently

   (a) increase.
   (b) decrease.
   (c) remain unchanged.
   (d) either increase or decrease.

2. **Essay Questions.**

   (a) Few people would disagree with the fact that firms should maximize profits. To do so they are always looking for ways to produce at a lower cost. Imagine a firm that uses four inputs: skilled workers, unskilled workers, capital and energy. For this firm capital and energy have been found to be used together; capital and skilled workers, capital and unskilled workers, and skilled and unskilled workers, are substitutes in production. Energy and any type of workers are substitutes. Energy prices in the last year have skyrocketed, but interest rates have decreased substantially. Can you analyze the effects on skilled and unskilled employment of all these changes knowing what you know about the optimal behavior of firms.

   (b) The articles I distributed in class on Wednesday May 1 (New York Times of Friday April 26, and Sunday April 28) deal with the complex issue of joint decision making in the household and the role of women in the labor force. We have spent quite a lot of time discussing this issue. Use the theory we have worked on to summarize and give your expert opinion on the points discussed in the articles.

3. **Any Household USA**. Consider a household where the husband can earn a market wage of \$15 per hour and has a marginal productivity in the household that is the equivalent of \$12. The wife can earn a market wage of \$20 and has a marginal productivity in the household that is the equivalent of \$15. Suppose initially that their marginal household productivities do not depend on the time that the other spouse spends at home.

(a) If the couple decides to have only one of them work for pay outside the home, who should it be?

(b) Would it make sense for both the husband and the wife to work for pay outside of the home?

(c) Assuming both members of the couple are working, how would an increase in the wife's wage affect her work hours? Would an increase in the wife's wage cause the husband to increase or decrease his work hours?

(d) How would your answer to (c) be different if you knew that the couple were substitutes in household production? What if they were complementary?