

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

Advanced Labor Theory

Professor Hugo Benítez-Silva

<http://ms.cc.sunysb.edu/~hbenitezsilv>

Problem Set 1. Due Friday February 15, in class.

Questions refer to the material of chapters 1, 2, and 3 of the textbook.

Please in your answers always show your work.

1. **From the Textbook** (remember to justify your answers. Credit is given *mainly* for reasoning about the answers):
  - Chapter 1 (pages 15 and 16)  
Review Questions: 2, and 6.  
Problem: 2.
  - Chapter 2: (pages 59–61)  
Review Questions: 2, 4, and 10.  
Problem: 2.
  - Chapter 3: (pages 93–95)  
Review Questions: 2, and 6  
Problems: 2, and 4.
2. **Essay Questions** (answers should not be much longer than a paragraph, think before you answer):
  - The Media has recently equated low wages and poor working conditions of many immigrant workers in the U.S. with “slave labor.” Using the concepts of normative economics, comment on the idea that the “market” outcomes of low wages and poor working conditions constitute slave labor.
  - Comment on the following quotation: “One way the minimum wage could result in expanded employment is if the government sets the minimum below the market equilibrium wage.”

- Suppose that in your firm, American workers, who are paid an hourly wage of \$15, can produce 20 units of output per hour (each unit sells for 1\$). Workers in Honduras, who are paid 6\$ per hour, can produce 9 units per hour (again, each sells for 1\$). If production is such that capital and transportation costs can be ignored, and if the firm is trying to maximize profits, in which country should your firm produce these items? Why?
3. **Group Question:** In class we discussed some of the consequences for employees of having part of their retirement savings invested in stock of their own company. This question is to be done in groups but the answers have to be written by each of you in your individual problem set.
- Summarize how this system works, the problem that this creates for employees, and why is it problematic. And why seems to affect managers less than average employees.
  - The President in the State of the Union address mentioned how shareholders should be protected. He has recently suggested ways to try to do that. Find and explain these proposals. Why is it that not everybody supports these proposals?
  - If you were working for a large corporation would you like to have your retirement savings, at least in part, in stock of that company? Can you relate your answer to the known financial-based model that promotes diversification? (Hint: See for example Chapter 12 (Varian) or Chapter 6 (Katz and Rosen) of the book you used in ECO-303.)
4. Choose the one alternative that best completes the statement or answers the question, explain:
- The labor market is unique because:
    - (a) contracts exist between buyers and sellers
    - (b) price and quantity information must be exchanged
    - (c) resources are allocated
    - (d) labor services must be rented, not bought or sold
  - Economic Rationality:
    - (a) implies that people have an objective and pursue it in a consistent fashion.
    - (b) implies that people's behavior does not adapt when incentives change.
    - (c) implies that there is no such thing as a free lunch.
    - (d) can be directly proven.
  - Nonpecuniary factors do NOT include:
    - (a) a worker's hourly wage rate.
    - (b) eyestrain caused by staring at a computer terminal.
    - (c) the chance of being injured by falling from a scaffold at work.
    - (d) annoyance caused by a rude co-worker.

- If the slope of a regression line is negative, then an increase in the independent variable will cause:
  - (a) an increase in the dependent variable.
  - (b) an increase in the error term.
  - (c) a decrease in the dependent variable.
  - (d) a decrease in the error term.
  
- The labor force is made up of:
  - (a) all members of society
  - (b) all members of society who are at least 16 years of age
  - (c) all members of society who are at least 16 years old and are either employed or unemployed
  - (d) employed workers, unemployed workers and retired workers.
  
- Given the data below, what is the labor force participation rate:
 

Population: 260 million; Employed: 130 million; Unemployed: 10 million; Retired: 35 million; Under Age of 16: 60 million.

  - (a) 54%
  - (b) 65%
  - (c) 70%
  - (d) 80%
  
- If the price of capital increases in an industry and the scale effect dominates,
  - (a) wages and employment levels with both increase
  - (b) wages and employment levels will both decrease
  - (c) wages will increase and employment levels will decrease
  - (d) wages will decrease and employment levels will increase
  
- The marginal product of labor tells us
  - (a) which employee is the most productive
  - (b) the average output produced by each employee
  - (c) the additional output produced by each employee
  - (d) how much money the firm can make from hiring each employee

- If a firm hires to a point where marginal expense of labor is greater than the marginal revenue product of labor, then:
  - (a) profits could be increased by increasing employment
  - (b) profits could be increased by reducing employment
  - (c) profits are maximized
  - (d) total cost must be greater than total revenue
  
- An employer who is a monopolist in the product market will probably
  - (a) hire more employees than a perfect competitor would.
  - (b) hire fewer employees than a perfect competitor would.
  - (c) hire the same number of employees as a perfect competitor, due to competitiveness in the labor market.
  - (d) hire fewer workers at a higher wage than a perfect competitor would
  
- For two substitutes in production, if the substitution effect dominates
  - (a) then the inputs are gross complements
  - (b) the the inputs are gross substitutes
  - (c) then the inputs could be either gross complements or gross substitutes
  - (d) then the inputs can not be used at the same time

Remember problem sets should help you understand the material better. They are the best indicators of what you will find in exams.