Econ 335: Labor Economics

Reflection 2, due Monday 9/22/14

Chapter 1

a) Explain clearly what economists mean by efficiency (in the sense of Pareto efficiency) and by equity.

b) In what ways might the labor market fail to provide efficiency? In what ways might it fail to provide equity? For each failure, discuss the pros and cons of possible policy interventions.

Chapter 3

a) Explain the substitution effect and scale effect of an increase in the wage on the demand for labor and the demand for capital. In this context, explain what it means for labor and capital to be 'gross substitutes' or 'gross complements'.

Chapter 4

a) Define the own-wage elasticity of demand for labor. Explain how the value of this elasticity bears on the question of whether minimum wage increases will improve the aggregate well-being of workers. Use diagrams to illustrate a low-elasticity case and a high-elasticity case.

Chapter 5

a) What is the connection between a worker facing some cost of changing jobs, and their employer facing an upward-sloping supply of labor curve?

b) Why does the marginal expense of labor exceed the wage rate for a firm facing an upward-sloping labor supply curve?

c) Give an example with a firm that is monopsonistic in the labor market, in which the establishment of a minimum wage can simultaneously increase wages, employment, and economic efficiency.

d) Why do the labor market frictions discussed in chapter 5 provide a partial explanation for the observation that a worker's wage tends to be positively associated with both their time at their current job and their overall time in the labor market?

e) List and describe labor market frictions on the worker side of the market, on the firm side of the market, and on both sides of the market. What are some consequences of these frictions?

f) A 'time-and-a-half' law for overtime pay may increase the employment rate by encouraging firms to hire more workers for fewer hours rather than fewer workers for more hours. But how else might employers respond to the law?