

# EUROPEAN HUMAN RESOURCES

## MIDTERM EXAM – MAY 28, 2009

### QUESTION 1

Suppose that as many as 50,000 immigrants land in Marseille during a single year. Professor La Palice (from the “Know-It-All” University) decides to estimate the causal impact of immigration on the unemployment rate of natives by comparing Marseille and Toulouse in the subsequent year.

- a) How should La Palice implement this comparison? What is the underlying assumption of this econometric strategy? Is it credible enough?
- b) From a theoretical point of view, what could lead La Palice to underestimate the true impact of immigration in the French labor market? Discuss this point with the help of a graph.
- c) Assume that La Palice’s study shows that all immigrants are low-skilled. What does this result tell us about the distribution of earnings in France and the source country?

### QUESTION 2

From a theoretical point of view, Employment Protection Legislation (EPL) is expected to affect labor market flows but not stocks.

- a) Is the above prediction confirmed by cross-country comparisons (using the OECD strictness index)? Briefly discuss the assumptions and results of this approach.
- b) Is the above prediction confirmed by within-country empirical studies (e.g., Italy and US)? Briefly discuss the assumptions and results of this approach.
- c) From a theoretical point of view, we expect EPL to have no effect on wages. True or false?

### QUESTION 3

The French government, faced with a sky-rocketing unemployment rate, hires Professor La Palice as a consultant in order to solve the problem. La Palice recommends to pass a law reducing working hours, so as to increase the amount of available jobs in the economy.

- a) Assuming that La Palice’s law had no effect on wage bargaining, would this policy reduce unemployment? Discuss the assumptions underlying your answer.
- b) Assume now that the law induces workers to ask for higher wages. What is the effect of the policy in this case? Discuss the assumptions underlying your answer.
- c) “Le Monde” comments on La Palice’s proposal writing that a law allowing for the use of part-time contracts would be more effective in increasing employment. What is the assumption of the comment by “Le Monde”? Discuss it with the help of graph.