

EUROPEAN HUMAN RESOURCES

MIDTERM EXAM – MARCH 24, 2009

QUESTION 1

In a non-discriminating monopsony, the firm faces an upward-sloping labor supply.

- a) In this situation, marginal hiring costs are greater or lower than the wage? The higher labor supply elasticity, the greater marginal costs: true or false?
- b) Show that the introduction of a minimum wage increases/decreases employment according to the level of the minimum wage.
- c) Also competitive firms may sometimes face an upward-sloping labor supply. Why?

QUESTION 2

Insiders versus outsiders.

- a) Why are they different?
- b) What are the effects of unemployment insurance on the utility of the representative insider?
- c) Assume a big recession is looming (maybe because of a credit crunch originated by a housing market bubble...). What about the political feasibility of different labor market institutions such as employment protection legislation or unemployment insurance? And what if, on the contrary, the recession just occurred. Discuss these issues referring to the theory of “political hysteresis” of unemployment.

QUESTION 3

Payroll taxation includes income taxes and social security contributions.

- a) What are the positive and normative implications of taxes in a competitive labor market?
- b) What do empirical studies usually find about the impact of taxes on labor supply?
- c) What is the rationale for in-work benefits (link the discussion to the previous point)? How do they work in practice?