UNIVERSITY OF VICTORIA FINAL EXAM April 2017

Last Name: First Name:	
STUDENT NUMBER: <u>V00</u>	

Course Name & No.:	Economics 471
Section(s):	A01
CRN:	23669
Instructor:	H. Schuetze
Duration:	2 Hours

This exam has a total of <u>11</u> pages including this cover page.

Students must count the number of pages and report any discrepancy immediately to the Invigilator.

This exam is to be answered: On the paper

<u>Marking Scheme</u>: The exam consists of four agree/disagree questions and four short answer style questions. Each of the agree/disagree questions is worth 10 marks. Short answer questions account for the remaining 60 marks.

Materials Allowed: University approved calculator.

PART I: AGREE/DISAGREE

State whether you agree or disagree with each of the following statements. If you agree with the statement, explain why you agree, and if you disagree, explain why you disagree (include the correct statement in your answer). I encourage you to illustrate your answers using diagrams where appropriate. Each question is worth **10 marks**.

1. If women are paid a wage equal to their marginal productivity, then gender discrimination in the labour market does not exist.

2. Because Pay Equity legislation is able to deal with both wage discrimination and occupational segregation, it is better suited to deal with discrimination than Conventional Equal Pay legislation.

3. A measure of union density which is based on union membership is likely to understate the fraction of workers influenced by collective agreements in Canada.

4. Suppose that the union's utility function is given by U=U(w) (i.e. that the union only cares about the wage its workers receive). Here, the contract curve will be vertical and lie to the right of the demand function.

PART II: SHORT-ANSWER QUESTIONS

1. [15 marks] Suppose you are given data about a firm, indicating that the average wage of male employees is \$15.00/hour and the average wage of female employees is \$10.50/hour.

(a) Define "labour market discrimination" against women.

(b) Do the preceding data prove that the firm discriminates against women?

(c) What kind of additional information would you need to determine whether such discrimination exists?

2. [20 marks] Suppose that in the absence of any legal barriers on immigration from Neolandia to Canada, it turns out that economic conditions in the two countries generate an immigrant flow that is negatively selected.

a) Using the Roy model discussed in class illustrate this situation using a diagram. Provide a brief description of your diagram.

b) Suppose that Canada enacts legislation granting all workers, including newly arriving immigrants, a minimum income floor of \overline{y} dollars. Using the Roy model show how this type of welfare program influences the worker's incentive to migrate to Canada. Does this welfare program change the selection of the immigrant flow?

(ignore issues that may arise regarding how the welfare program is to be funded)

c) Alternatively, suppose that Canada enacts an immigration policy that restricts entry to Neolandians who are in the top 10 percent of Neolandia's skill distribution (i.e. only the highest skilled Neolandians can immigrate). What type of Neolandian would now migrate to Canada? Discuss.

3. [25 marks] Assume you are the head of the newly formed Airline Pilots' Association and your brother is head of the newly formed Garment Workers' Association. Your union faces an elasticity of demand for labour of -0.2 and your brother's union faces an elasticity of demand for labour of -0.6. You both can only bargain over wages.

(a) If you both negotiated the average union wage premium of 10 percent that exists in the economy, what employment effects would result?

(b) If you both were willing to accept a 2 percent reduction in the employment of your membership what wage increase would you each bargain for?

(c) If the airline that you bargained against just bought out another airline so there was very little competition, and this cut the elasticity of demand for labour that you faced by half, what wage would you now bargain for if you were willing to accept a 2 percent reduction in the employment of your membership? Would you support or oppose the merger?

(d) If your brother's union now was bargaining with employers who were just exposed to increased international competition from countries with low-wage labour and this increased the elasticity of demand for labour that he faced from -0.6 to -1.0, what wage increase would he now bargain for if he were willing to accept a 2 percent reduction in employment? Would your brother support or oppose free trade?

(e) Given the advantages of an inelastic labour demand curve discuss two ways in which you and your brother could make labour demand more inelastic.

4. [20 marks] Suppose the marginal revenue from job search is given by:

MR = 50-1.5w

where w is the number of weeks spent searching for a job.

The marginal cost of search is given by:

MC = 20+w

(a) Why is the marginal revenue from search a negative function of weeks spent searching?

(b) Why is the marginal cost from search a positive function of weeks spent searching?

(c) What is the worker's optimal search time?

(d) Suppose that the government increased EI benefits, and the marginal cost of search falls to MC = 5 + w. What is the new optimal search time? How does this result compare to your answer in part c)?