

NOTES:

The exam lasts **120 minutes**. It is composed of two parts. The first part consists of short-answer questions, whose answer should not exceed half a page of text for each. The second part is composed of two questions for further development.

Please answer in ISEG answer sheets

Part I

1. Discuss briefly each of the following 5 topics (you may use the appropriate graphs to support your explanation) - **each topic 20 points**:
 - a. The higher the duration of unemployment spells the higher is likely to be the unemployment rate.
 - b. Employers facing higher costs of risk reduction are likely to pay higher wages.
 - c. What you may expect to happen to the employment in the medium run in a given region after you observe a sudden decline in employment levels as a result of a fall in the region's demand for labour when wages are fixed in the short-run, considering that the new demand for labour curve remains unchanged for a long period and the region's labour supply curve does not shift?
 - d. A proposal was tabled to introduce a "wealth tax"—on buildings, machinery and equipment—that would be levied on all employers having over \$10 million of investment invested in such assets. Explain using labour demand theory what is the likely effect on employees of those employers.
 - e. If one observes a reduction in the wage gap between men and women in the market, it means that labour market discrimination against women is diminishing.

Part II

1. Answer the following questions (you may use the appropriate graphs to support your explanation) - **each question 50 points**:
 - a. Using the approaches laid down in labour economics how you might explain the widening gap between the wages of highly educated and less-educated workers?
 - b. A new left leaning government come into power in a given country and is proposing some programs designed to appeal to "blue-collar" supporters, namely increasing the income tax rate applicable to the rich and expanding the free, government-provided social service programs to all (medical services and education being prominent among these). Analyse the potential work incentive effects of these proposals.