

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

Discuss briefly each of the following 5 topics (you may use the appropriate graphs to support your explanation) - **each topic 20 points**:

- a) A country is a world's leading exporter of a given product, which is produced by a large labour force that includes many children. Assume that in that country the use of child labour is outlawed. Using economic theory, analyse what would happen to employment and wages in that industry.
- b) One way that a minimum wage could result in expanded employment is if the government sets the minimum below the market equilibrium wage.
- c) Suppose that prisons historically have required inmates to perform, without pay, various cleaning and food preparation jobs within the prison. Now, suppose that prisoners are offered paid work in factory jobs within the prison walls and that the cleaning and food preparation tasks are now performed by non-prisoners hired to do them. Would you expect to see any differences in the technologies used to perform these tasks?
- d) Suppose that all employers in the internet industry currently allow their programmers and web designers to work from home, which appeals to those with childcare or other responsibilities that can be accomplished at less cost than if they had to leave home and commute to work. Now suppose that these employers become convinced that they can increase the productivity of their programmers and designers by requiring them to work together in company offices. What are the likely labour-market effects of this new policy on the industry.
- e) Assume a tax reform that is designed to reduce the marginal tax rate while eliminating enough deductions and loopholes so that total revenues collected by the government could remain constant. What are the likely effects on labour supply?

Part II

Answer the following questions (you may use the appropriate graphs to support your explanation) - **each question 50 points**:

- a) In a given country, a law went into effect that cut the standard workweek from 39 to 35 hours (workers got paid for 39 hours even though working 35), while at the same time prohibiting overtime hours from being worked (overtime in that country is paid at 25% above the normal wage rate.) Draw the old budget constraint, the new budget constraint. and discuss which workers are better off under the new law. Are any worse off?
- b) Assume that some employers offer jobs for which overtime is mandatory. Others offer jobs for which overtime hours are usually available to workers if they wish to work them, and still others offer jobs for which overtime hours are not commonly worked. A careful study of wages found that jobs for which overtime hours are commonly available pay lower wages than jobs for which overtime is not usually worked (after controlling for all other factors affecting the wage rate). Moreover, jobs for which overtime is required are found to pay wages comparable to those found in jobs for which overtime is unusual, again controlling for all other factors affecting wages. Discuss this taking into account the idea of compensating wage differentials.