

Answer any 4 of 5 questions – free choice

All questions are worth the same marks (25%).

Question 1 Payment Methods

What is the principal-agent problem and how does it lead to difficulties with labour contracts? How can performance related pay potentially address this problem?

Question 2 Labour Market Discrimination

How can taste based discrimination lead to wage differences across groups of workers? How can wage discrimination be measured? What is meant by pre-market factors and why might they be important when measuring wage discrimination?

Question 3 Labour Supply

Contrast the effects of changes in wages and non-labour income on hours worked. Why is it difficult to design systems that provide welfare while not disincentivizing labour force participation? How can tax credit systems, such as the earned income tax credit (EITC) system, potentially address this problem?

Question 4 Education

You estimate a mincer equation for the wage returns to schooling in Norway. The estimate is 0.07 (approx. 7%).

Discuss and demonstrate why it might be wrong to interpret this as the causal effect of education on earnings? What methods could be used to estimate the causal effect of education on earnings? Should a policy maker (i.e. the government) care whether the estimate is causal or not?

Question 5 Minimum Wages

What is the effect of a minimum wage on employment? In discussing this, contrast the expected outcomes in a competitive and a monopsonistic setting.