

Exam SØK3522 December 2020, 6 hours

Answer all 4 questions. Share of marks included with each question.

Question 1 (25%) Labour Supply and Job Search

Demonstrate the optimal leisure-labour choice in a labour-supply framework.

What is the effect on labour supply decisions of paying welfare payments to the unemployed? How do Tax Credit Systems (like the Earned Income Tax Credit scheme) seek to encourage individuals to enter employment?

Question 2 (25%) Human Capital

Workers with more education earn higher wages. Show how ability bias makes it difficult to interpret these differences as being (only) due to education. How can quasi-experimental approaches (for example based on using compulsory school leaving laws) help to provide causal estimates of the returns to education?

Question 3 (25%) Contracts

How do information asymmetries between workers and firms lead to principal-agent problems? How can performance related pay schemes potentially reduce these problems?

Question 4 (25%) Policy

- a. Demonstrate the effect of introducing a binding minimum wage on employment.
- b. How can the Oaxaca-Blinder model can be used to measure wage discrimination?