Labor Economics General Exam   CERGE-EI: Svejnar, Münich, Jurajda

Friday, June 6, 2003

Instructions.   There are three hours of questions. The suggested time allocation is given for each question. You have an extra hour for reading, thinking and organizing your answers.

Labour Demand

1. Wage and employment setting constitutes an important aspect of ...rm behavior in the global economy. While the competitive (spot market) model of the labor market constitutes a useful benchmark, a number of alternative theories have been advanced to explain the observed wage-employment outcomes in ...rms around the world. Speci...cally, consider the competitive, generalized Nash bargaining, e¢ciency wage, and cost of labor turnover models of the labor market. Select two of these models to answer questions (a) to (d).   (45 minutes)

   (a) Using verbal, geometric or mathematical formulations as needed, depict the essence of your two models.

   (b) Compare the assumptions of these models and assess how realistic they are in di¤erent contexts.

   (c) Next, compare the theoretical predictions of these models in terms of the distribution of surplus and allocation of resources. Consider these predictions from the private stand-point (workers and employers) as well as from the social standpoint (e¢ciency of resource allocation from the GDP maximization point of view).

   (d) What is the empirical support for these models?

Labour Supply

2. Wages of men and women have roughly doubled during the last 50 years, the participation of women in the labour market has doubled, the wage gap between men and women has fallen by half, and the fertility rate has also fallen by half. Draw on various economic models to explain some or all of these trends at the same time. Which economic forces are driving these trends in each case?   (40 minutes)

3. Many European countries are currently discussing provisions to make it easier to admit highly skilled immigrants. At the same time, these countries are trying to restrict further immigration of low skilled immigrants. Discuss whether it makes economic sense to pursue these policies. What does the empirical evidence say about the e¤ect of low skilled immigrants on the labour market outcomes for natives?   (40 minutes)

Emprical Strategies in Labor Economics

4. Provide an example of an empirical identi...cation strategy for estimating the e¤ect of a change in national policy.   (15 minutes)

5. You want to estimate the e¤ect of privatization on GDP growth across Russian oblast (regions) during the ...rst 10 years of transition and have available an appropriate panel data set. Discuss your econometric speci...cation. What potential problems do you need to consider in your study? (15 minutes)

6. Economists are traditionally concerned with studying the wage-unemployment relationship. Suppose that you are interested in this issue as well. You have collected data on the unemployment and wage level in each of 77 districts of the Czech Republic during 1990-2000. Specify an estimable equation (data dimension) for each of the economic questions posed below:

   (a) First, you are interested in macroeconomic wage ‡exibility (i.e., does the aggregate wage level decrease when aggregate unemployment increases?). (5 minutes)

   (b) Second, you are interested in comparing wage levels in districts facing di¤erent (long-run) unemployment rates, because you believe in compensating wage di¤erentials (and a long-run migration equilibrium). (10 minutes)

   (c) Third, you want to know if local labor market equilibration works in that a sudden temporal increase in unemployment in a given region leads to a decrease in regional wage level (which should lower costs of job creation and eventually lead to a lowering of unemployment). (15 minutes)

   (d) Finally, discuss whether OLS estimates of the equation you proposed in question (c) provide causal evidence on the wage-unemployment relationship. (5 minutes)