

EC3311 Labour Economics
Seminar 1

Articles are available on-line at Jstor (<http://uk.jstor.org/cgi-bin/jstor/listjournal?frame=noframe#Economics>).

Readings: Ehrenberg & Smith, ch 8

*Charles Brown, "Equalizing Differences in the Labor Market," Quarterly Journal of Economics, 94, 1980, pp. 113-34.

*Robert Smith, "Compensating Wage Differentials and Public Policy: A Review," Industrial and Labor Relations Review, 32, 1979, pp. 339-52.

1. Explain the importance of the assumptions about utility maximisation, worker information, and worker mobility in the theory of compensating differentials.
2. Draw the indifference curves for two workers whose jobs differ in terms of wages and flexibility of hours. Assume that more flexible hours are viewed as being good (Draw the diagram such that wage is on the vertical axis). If worker A has a more steeply sloped indifference curve what can you say about relative preferences?
3. Draw the isoprofit curves for an employer who offers a package of flexibility and wages, whereby greater flexibility makes the work less productive and thus receives a lower wage.
4. Under what circumstances can government mandates increasing safety benefit workers?

Questions 5 - 8 are drawn from the article Charles Brown, "Equalizing Differences in the Labor Market"

5. Table 1 in the article shows the expected sign of the regression coefficients on the job characteristic variable (column 7). Explain why the characteristic will have an expected positive coefficient. Refer to the study by Hamermesh (1977).
6. Explain why it is important to have longitudinal data in the tests. What are the problems with cross-sectional data?
7. What workplace characteristics does the author believe might receive a compensating differential? Does his evidence support the hypothesis that compensating differentials are paid for these characteristics?

8. What explanations does the author offer for the weak evidence about payment of compensating differentials ?

Questions 9 - 10 are drawn from the article Robert Smith, "Compensating Wage Differentials and Public Policy: A Review"

9. How much are workers willing to pay to avoid an increased risk of death on the job? Describe the methodology for computing an amount.

10. What effect does heterogeneous preferences toward risk have on the size of a compensating differentials?