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Quiz 8: Job Rationing & Efficiency

Question A

If the production function is $Y = a \times N$ in the matching model (where a is productivity and N is the number of producers), what is shape of the labor demand curve in the usual (employment, tightness) diagram?

1. Downward sloping
2. Upward sloping
3. Vertical
4. Horizontal
5. None of the above

Question B

In the matching model described in Question A, is there any rationing unemployment?

1. Yes, if wages are rigid.
2. Yes, if wages are obtained by Nash bargaining.
3. Yes, because the unemployment rate is always positive.
4. No, because job rationing requires a downward-sloping labor demand in the usual (employment, tightness) diagram.
5. No, because rationing unemployment cannot exist in matching models.

Question C

In a matching model with rigid wage and diminishing marginal returns to labor, what happens to frictional and rationing unemployment over the business cycle?

1. In bad times, rationing unemployment is high but frictional unemployment is low, and total unemployment is high.
2. In bad times, rationing unemployment is high but frictional unemployment is low, so total unemployment is low.
3. In bad times, both rationing unemployment and frictional unemployment are high, so total unemployment is high.
4. All unemployment is frictional at any point over the business cycle.
5. All unemployment is rationing at any point over the business cycle.
6. In bad times, frictional unemployment is high but rationing unemployment is low, and total unemployment is high.
7. None of the above.

Question D

In the model of Question C, which policy would effectively reduce unemployment in bad times?

1. Building a placement agency to help firms with recruiting.
2. Building a placement agency to monitor jobseekers' search.
3. Subsidizing wages to stimulate labor demand.
4. Increasing the minimum wage to support low-wage workers.
5. None of these policies would be particularly effective.

Question E

From a social perspective, what are the costs from lowering unemployment?

1. Lowering unemployment increases the number of people who are out of the labor force.
2. Lowering unemployment increases the share of workers who are devoted to recruiting.
3. Lowering unemployment increases the share of workers who are devoted to producing.
4. Lowering unemployment reduces the wage of employed workers.
5. Lowering unemployment raises the wage that firms must pay their employees.
6. Lowering unemployment has no social cost so it is efficient to bring unemployment all the way to 0%.

Question F

From a social perspective, what are the costs from raising unemployment?

1. Raising unemployment lowers the number of people who are out of the labor force.
2. Raising unemployment increases the number of workers who are devoted to recruiting.
3. Raising unemployment lowers the number of workers who are employed.
4. Raising unemployment reduces the wage of employed workers.
5. Raising unemployment lowers inflation below the 2% target.

Question G

Consider the matching model of the labor market, and assume that all workers are paid at a minimum wage. Imagine that the goal of the government is to maintain unemployment at its efficient level. Under which circumstances should the government raise the minimum wage?

1. If the current unemployment rate is too low.
2. If the current unemployment rate is too high.
3. The government should never raise the minimum wage.
4. The government should always raise the minimum wage.
5. Changing the minimum wage is not a useful policy in this context.

Question H

Under which condition is the unemployment rate efficient in a matching model?

1. For any wage mechanism.
2. If wages are rigid enough.
3. If wages are determined by Nash bargaining.
4. If wages are determined by Nash bargaining and satisfy the Hosios condition.
5. There is no wage mechanism that ensures efficiency.