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- (i) If it were found that workers with safer and more pleasant working conditions were paid more than other workers, one should conclude that the labor market is not fully compensating workers for unsafe or otherwise unpleasant conditions.

- ▷ Wages determined by productivity as well as value of “fringe benefits”. If we count safer and more pleasant working conditions as a benefit, then all else equal, we would expect workers to be paid less relative to those who do not receive such a benefit.
- ▷ However, perhaps those in safer and more pleasant working conditions are more productive and this effect outweighs the value of the benefit.

(Tak)

- (ii) In a society in which people are altruistic and otherwise care about how other people are treated, businesses will not merely maximize profits but instead will make social responsibility one of their objectives. Depends on the people that businesses care about.

- ▷ People might be altruistic about certain (groups of) people. Social responsibility might refer to a different set of people. Thus, businesses may not make social responsibility as their objectives. They would be better off targeting the groups of people its customers care about.
- ▷ But, social responsibility might in fact be profit maximising (in the long run).

(Tak)

- (iii) When housing prices are above their long-run values and continue to rise, that is good evidence that home buyers and home builders do not have realistic expectations about the future. this is straight from the class.

- ▷ What does “good” evidence mean - _ -
- ▷ Suppose the market expects demand to increase in the future. This will mean that prices will be higher to induce greater investment. However, very difficult to know if the expectation is realistic.
- ▷ How does one know that one is in a bubble? In the transition stage, the expected increase in demand that is genuine (i.e. it happens) and expected increase in demand that turns out to be false (i.e. does not happen) have the same dynamic: P increasing over time, R falling over time.
- ▷ Comparison against long-run values might help determine if one is in a bubble but it could be due to genuine demand.
- ▷ Moreover, to the extent that others believe that demand will increase in the future, it would be reasonable to expect that demand will in fact rise in the future.

(Tak)

- (iv) Journalists are frequently accused of expressing opinions that are politically more liberal than their readers/viewers’. True, False, or Uncertain: We should doubt that accusation because competition among journalists and news outlets results in journalism that represents the views of the customers.

- ▷ Self-selection: those who are more liberal more likely to become journalists.
- ▷ News outlets has incentive to provide journalism that represents the views of the customers to maintain readership. Thus, outlets have an incentive to hire journalists that reflects the views of its readership. Journalists themselves may be willing to accept lower wages to propagate their opinions.

- ▷ Two competing forces that journalists face: (i) sensational headlines/opinions attract readership and the journalists become more popular; (ii) too sensational might mean that journalist lose credibility and thus lose readership.
- ▷ Since there is a lot of “grey” area in falling trap of (ii), journalists themselves might express more liberal views than the readers (and perhaps even their own).

(Tak)

- (v) If there is a well-enforced minimum wage law that wages must exceed their competitive levels, then the willingness of people to work has no effect on the number of people employed.
- (vi) Although monopolies are inefficient, a monopolist that price discriminates gets closer to the competitive market outcome. Tempting to think this but in fact there could be some other equilibrium wage.
 - ▷ First-degree price discrimination achieves allocative efficiency but consumers pay more than in perfect competition.
 - ▷ Second and Third-degree price discrimination leads to lower output than in perfect competition.
 - ▷ Note: Different definitions of efficiency: allocative ($p = MC$), Pareto, productive ($p = \min AC$), dynamic efficiency.

(Tak)

- (vii) A \$100 weekly tax on full-time jobs (30+ hours per week) would cause workers to work fewer hours per week.
 - ▷ Exception, if labour supply is backward bending and worker is in the downward sloping part (where, income effect, which increases demand for leisure, more than offsets the substitution effect, which increases supply of labour)
 - ▷ This means that there will be a discontinuity (jump down) in the labour supply at 30 hours per week.

(Tak)

- (viii) One way to help alleviate overcharges by monopolists would be to fine monopolists that charge too much (in comparison with their costs).