Exam 1 Study Guide

ECON 380
UNC Chapel Hill

Useful stuff to know for exam 1:

Labor Force Accounting & Unemployment

1. How to classify individuals - E, U, O, or not in P

2. What are discouraged workers? Marginally attached workers?

3. How to compute the LFPR

4. Differences between U3/U4/U5/U6 unemployment rates and how to compute them

5. What are the major issues with the official unemployment rate?

6. What are the different types of unemployment?

7. What policies might be most effective at combating different unemployment types?

Neoclassical Model of Labor Supply

1. Properties of indifference curves

2. What do MU_L and MU_C measure?

3. What is $MRS_{L,C}$ in words? Graphically?

4. How to write the equation for an individual's budget constraint and how to graph a budget constraint (CHARLIE)

5. What is the price of leisure?

6. How do changes in (i) non-labor income and (ii) wages affect the budget constraint?

7. How does a worker choose the optimal number of work hours? Should know how to solve algebraically and how to show graphically.

8. What's the intuition behind the tangency condition? How should a worker reallocate his bundle if $MRS_{L,C} < w$? If $MRS_{L,C} > w$?

9. How do changes in non-labor income affect the hours-worked decision if leisure is income normal?

10. How do changes in the wage rate affect the hours-worked decision? Is the overall impact unambiguous?

11. What happens to hours-worked if the income effect dominates the substitution effect? What if the substitution effect dominates the income effect? What do the graphs look like for each case?

12. What is the endowment point?

13. What is the reservation wage (in words)? How to calculate it?

14. How do changes in non-labor income affect the reservation wage? Changes in the wage rate?

15. How to compute elasticity of labor supply.

16. What does the magnitude of labor supply elasticity tell you? What does the sign tell you?

17. What are two of the main issues with empirically estimating the elasticity of labor supply?

18. What are the main theoretical predictions under (i) AFDC/TANF and (ii) the Earned Income Tax Credit

Labor Demand

1. What do we assume is the goal of a firm?

2. What is the condition to find the optimal number of workers to hire in the short-run?

3. Solving for optimal number of workers to hire in SR

4. Condition to optimally allocate labor and capital in the LR.

5. How to reallocate labor and capital given r, w, and $MRTS$. Know how to explain why the reallocation is more efficient

6. Relationship between short-run and long-run demand elasticity? Why are they different?

Competitive Markets

1. How to find equilibrium wage and employment level given labor supply and demand equations

2. How to find employment and unemployment level under a binding minimum wage

3. How to find producer, worker, and total surplus from a graph

4. How to find producer, worker, total surplus, and DWL under a binding minimum wage

5. Be able to explain why the allocation of resources (i.e., the equilibrium employment level) is efficient in a labor market with no externalities

6. How the free entry/exit of workers (or firms) across regions will eventually lead to a single equilibrium wage

Immigration Impacts

1. Short-run vs long-run wage & employment effects of migration in the case of perfect substitutes and how to reflect this on a graph

2. Short-run vs long-run wage & employment effects of migration in the case of complements and how to reflect this on a graph

3. How to calculate native worker and native firm surplus before and after immigration in the case of perfect substitutes (short-run)

4. How to calculate immigration surplus

5. Welfare implications if migrants are perfect substitutes: who is better off, who is worse off? What is the effect on total welfare?

Noncompetitive Labor Markets

1. Welfare implications in a market with a perfectly discriminating monopolist

2. Under a non-discriminatory monopolist, what is the relationship between the marginal cost of hiring labor and the wage rate?

3. What is the implication of this relationship on the number of workers employed when compared to a perfectly competitive market or perfectly discriminating monopsonist

4. What are the welfare impacts under a non-discriminating monoposonist?

5. How to find PS, WS, TS, and DWL from a graph under this structure

6. Can a minimum wage improve the allocation of resources in this case?

7. What is the "optimal" minimum wage that maximizes total surplus?

LMDCs

1. Know 2-3 of the main differences between labor markets in developed and developing countries as described by Fields (2011)

2. Know 2-3 of the differences between "traditional" and "modern" labor markets from Campbell & Ahmed (2012)

3. What are the two possible explanations for why labor markets are segmented?

4. Arias & Khamis (2008) found evidence for both segmentation stories. In which sector (self-employed or informal work) did they find evidence for the "exclusion view" and in which did they find evidence for the comparative advantage story?

5. Why might the income effect due to a wage drop be stronger in developing countries? (Jayachandran 2006)?

6. What were the results on women's labor market participation as a result of the program analyzed in Jensen (2012)?