797n – Macro 3

Fall 2015

Problem set 6

1. Consider the Autor et al (2008, section IIIc) view on the role of "non-market forces". According to Autor at el.,
   (a) can non-market forces affect wage inequality?
   (b) have they been a significant influence? How can one tell?
2. Assume a CES production function as in Autor et al equation (1). Assume that the distribution parameter α is constant while the factor augmenting rates of technical progress satisfy $\hat{a} > \hat{b}$. What conditions on the parameters of the production function will ensure that skilled workers gain in terms of relative wages for given relative employment (or gain in terms of employment for given relaive wages)? What is the intuition?
3. In the Guy-Skott model of PBTC,
   (a) is it reasonable to assume that both groups of labor have the same rates of discount (r) and job separations (δ)?
   (b) what are the implications of assuming that L(ow power)-workers have discount and separation rates that are larger than those for H(igh power workers)?
   (c) what is the intuition behind the requirement (p. 13) that the labor-labor substitutability be low?