

12.1

2/2 points (graded)

Fill in the blanks. The results of Card and Krueger (1994) show that an increase in the minimum wage

increases

✔ Answer: increases employment, suggesting that fast food restaurants have

monopsony

✔ Answer: monopsony power in their job market.

Explanation

The results of Card and Krueger (1994) show that an increase in the minimum wage increases employment in fast food restaurants. Therefore, the competitive model (i.e., null hypothesis) is rejected and the monopsony model (i.e., alternative hypothesis) is accepted.

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Answers are displayed within the problem

12.2

1/1 point (graded)

What concerns might be raised about the findings of Card and Krueger (1994)?

- ☐ It is a relatively small-scale study by contemporary standards.
- ☐ There might be interference between the two neighboring states.
- ☐ The parallel trend assumption might not hold.
- ☐ Only fast food restaurants are included in the study.
- ☒ All of the above.

✔

Explanation

First, by contemporary standards, the scale of the Card and Krueger (1994) study is relatively small which may undermine the internal and external validity of the study. Second, since New Jersey and Pennsylvania are right next to each other, employment in one state is likely to be affected by employment in the other. Third, there might be other factors influencing employment in only one of the two states, thus invalidating the parallel trend assumption. Finally, because only fast food restaurants were examined, the findings might not be applicable to other types of job markets. Therefore, all of the options are possible concerns about the findings of Card and Krueger (1994).

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12.3

1/1 point (graded)

Why did Card and Krueger (1994) choose to examine fast food restaurants? Select all that apply.

- ☒ Because most of the employees are paid minimum wage.
- ☐ Because fast food restaurants had the largest job market at that time.
- ☒ Because employees could be very responsive to a small difference in wages.
- ☒ Because the job market for fast food restaurants is very competitive.

Explanation

They chose fast food restaurants because the jobs are very competitive and one of the lowest paying jobs where a large fraction of workers are paid minimum wage. If we are looking for the impact of the minimum wage on employment in a monopsony market, this is the place where we would be most likely to see it happen. In addition, since employees could be very responsive to a small difference in wages, we expect a fast response to changes in employment, which therefore facilitates data collection.

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