

Quiz on Labor-Demand Policies

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Question 1

The public-employment multiplier measures the change in employment when the government hires one extra worker in the public sector. Why is the public-employment multiplier always below 1?

- A) Because an increase in public employment raises labor market tightness, which depresses private employment.
- B) Because an increase in public employment raises wages, which depresses private employment.
- C) Because an increase in public employment lowers labor market tightness, which depresses private employment.
- D) Because workers employed in the public sector do not stay long on the job: there is high job separations.
- E) The public-employment multiplier is not always below 1.

Question 2

Policies are often evaluated according to their bang-for-the-buck: the effect of 1 dollar of spending on employment or output. When will public employment have the largest bang-for-the-buck?

- A) Public employment always leads to the employment of one public worker, so it always has the same bang-for-the-buck.
- B) Unemployment is low in good times, so that is when public employment has the largest bang-for-the-buck.
- C) The public-employment multiplier is largest in bad times, when unemployment is high, so that is when public employment has the largest bang-for-the-buck.
- D) The public-employment multiplier is largest in good times, when unemployment is low, so that is when public employment has the largest bang-for-the-buck.

Question 3

What is the share of workers employed in the public sector in the United States?

- A) Between 0% and 5%
- B) Between 5% and 10%
- C) Between 10% and 15%
- D) Between 15% and 20%
- E) Between 20% and 25%
- F) Between 25% and 30%
- G) None of the above

Question 4

How does the shape of the production function affect the public-employment multiplier?

- A) It has no effect on the public-employment multiplier.
- B) With a linear production function, the labor demand is horizontal so the public-employment multiplier is 1.
- C) With a linear production function, the labor demand is horizontal so the public-employment multiplier is 0.
- D) With a concave production function, the labor demand is downward-sloping so the public-employment multiplier is 0.
- E) None of the above

Question 5

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?

- A) If the current unemployment rate is too low.

- B) If the current unemployment rate is too high.
- C) The government should never raise the minimum wage.
- D) The government should always raise the minimum wage.
- E) Changing the minimum wage is not a useful policy in this context.