PA 5431/HRIR 5655: Public Policies on Work and Pay

Due September 29th 2020

Fall 2020

**Homework 2: Incentives Compliance**

1. Calculate the incentive for firms to violate the law if the firm has 10 potentially unionized employees if (*U*0− *U*1) is 0*.*12 and if it is 0*.*3. Assume (*πn*− *πu*) = $45*,*000, *F*=$6,000, and *p*=1.

2. Calculate the incentive for firms to violate the law if *F* = $3*,*000. Explain the role of fines on the likelihood of violations of these public policies within the quantitative approach and how would you use public policy to get firms comply using the approach noted in this problem?

Hint: Net Expected Benefits from Illegal Activity is

(*U*0− *U*1)(*πn*− *πu*) − *pF*

Firm engages in illegal activity if net expected benefit is positive. See class notes.