

## Chapter 19

1. Within each of the following pairs of workers, which worker is likely to earn more and why? (It may be obvious which one is paid more. The real issue is to explain why one is paid more than the other.)
  - a. A carpenter working at the top of a 600-foot cooling tower of a nuclear power plant or a carpenter who frames houses?

Answer:

The carpenter working at the 600 foot height because he/she will likely require a compensating differential for the danger of the job.

- b. A shop assistant in a supermarket store or a lawyer?

Answer:

A lawyer because the lawyer has greater human capital from years of education and the lawyer requires a compensating differential to compensate for the cost and effort of becoming educated.

- c. A lawyer with one year of experience or a lawyer with six years of experience?

Answer:

A lawyer with six years of experience because work experience is part of human capital.

- d. A worker in a car factory who works the day shift or a worker in a car factory who works the night shift?

Answer:

The nightshift worker because the nightshift is disagreeable and the worker requires a compensating differential.

- e. An economics professor or a corporate economist?

Answer:

The corporate economist because the corporate economist requires a compensating differential to compensate for the less agreeable nature of the work. Also, the corporate economist may have a greater value of marginal product.

- f. A history professor or an economics professor?

Answer:

An economics professor because the market wage for economists is higher due to the economist's higher value of marginal product in the corporate labour market.

- g. Someone trained as a key-punch operator (typist who types input commands on cards to be read by a mainframe computer prior to the existence of computer terminals) or someone trained as a personal computer specialist?

Answer:

A personal computer specialist because technology has changed such that key-punch operators are no longer needed while PC specialists are needed.

- h. Your favourite local blues band that plays regularly at a nearby campus bar or David Bowie?

Answer:

Superstar David Bowie because through technology he is able to satisfy the entire market at the same time. (He is the first rock star to have a net worth in excess of one billion dollars).

- i. A lazy, stupid plumber or a hardworking, bright plumber?

Answer:

The hardworking bright plumber because the value of the marginal product is higher for people with ability and who work hard.

- j. The best carpenter on the planet or the best writer on the planet?

Answer:

The best writer because the writer is in a market that can support a superstar while the carpenter is not.

2. a. Explain the human capital view of education and the signalling view of education.

Answer:

Education increases human capital and raises the value of the marginal product of labour and, thus, the wage. Alternatively, education is only a signal of high ability.

- b. What are the implications for education policy under each view?

Answer:

According to the human capital view, policies that increase educational attainment for all will increase all wages. According to the signalling view, an increase in educational attainment will not affect wages because education does not increase productivity.

- c. Which of the above is true? Explain.

Answer:

Probably both are true. It is unclear which of these two effects of education is the more important.

3. a. How can a competitive market eliminate discrimination in the labour market?

Answer:

Firms only interested in profit will hire the group of workers that is discriminated against. Since their wages are relatively low, the firms that do not discriminate will have a competitive advantage over the discriminatory firms. As the non-discriminating firms replace the discriminatory firms, the relative demand for workers previously discriminated against will increase, which will remove the discriminatory wage differential.

- b. What limits a competitive market's ability to reduce discrimination? Explain.

Answer:

If bigoted customers are willing to pay higher prices to firms that discriminate, or if the government requires discrimination, the competitive market cannot eliminate discrimination.