

Economics 150A - Labor Economics
Practice Midterm Exam

- (1) Leon Black is currently working 30 hours per week at \$30 per hour and is married to a woman who earns \$20 per hour and works 20 hours per week. The Blacks have no children. Unfortunately for the Blacks, their marriage ends in divorce. Given the information provide, does this change Leon's labor supply? If so, does he work more or less? If not, why not? (6 points)
- (2) Does forcing a worker to pay a fixed monetary cost of work increase or decrease his reservation wage? Assume that he has a non-wage income of \$100 per day and that the going market wage rate (i.e. the wage he can earn if he chooses to work) is \$10 per hour. (6 points)
- (3) Jack would like to work 10 hours at the going rate of \$25 an hour. Unfortunately, the best job he can get is at a widget factory and will only allow him to work for 8 hours of work per day so Jack has chosen to comply, and work exactly 8 hours per day. Now imagine that there is a sudden increase in demand for widgets and the manager of the factor needs to entice employees to work more hours. In an attempt to get Paul to work more hours his boss, offers to pay Jack \$30 an hour for every hour he works beyond 8 hours per day. Faced with this new opportunity, will Jack work more, less, or the same number of hours per day? (6 points)
- (4) Alice currently earns \$20 per hour and chooses to work 40 hours per week. Assume that she has a total of 80 hours per week to choose over labor and leisure.
 - (a) Scenario #1. Her company offers her a retirement package that pays \$400 per week if she resigns. Should she retire assuming that she then works zero hours (i.e. cannot work for anyone else)? Explain why. (3 points)
 - (b) Scenario #2. Now imagine that if she retires, and collects her pension, she has the option to take another job at an hourly wage rate of \$10. However, in this case his pension is reduced by \$0.50 for each \$1 that he earns. Is this option attractive to Alice? If so, will she work more or less than 40 hours per week? And, why? If not, why not? (3 points)
- (5) A husband and wife are trying to decide who should work in household and who should work at the local farm picking fruit (in the labor market).
 - (a) The wife can earn \$30 per hour picking fruit and produce \$10 of household production per hour if she works at home. The husband can earn \$10 per hour picking fruit and produce \$5 of household production per hour if he works at home. If they each have **8 available hours** and they want at total \$100 of home production (between them), how many hours should each work at picking fruit and at home production? (3 points)
 - (b) Now imagine that everything is the same as in (a), except that the husband becomes faster at picking fruit and can now earn \$15 for each hour of fruit picking. If they still have 8 hours each to allocate to either fruit picking or home production, and they still want a total of \$100 of home production how many hours should each of them work at picking fruit and home production? (3 points)