

Midterm Exam

This exam is a take-home exam. It is open-book and open-note. You may not use sources beyond class notes, readings and our assigned books. You may talk with me or Aaron, but not with each other. This exam is due in my office (439 Engineering 2 Bldg.) no later than 6pm Thursday, Nov. 5. By the same time and date, an electronic version is due to economics180@gmail.com. You must turn in both versions. The “lateness” of your exam will be determined by the electronic time stamp. Exams must be typed. In the electronic version, it is permissible to leave blank spaces where, on the hardcopy, you have hand-drawn graphs or added equations.

You should “write” for no more than two hours. You may take additional time to “type” your answers, but I strongly suggest that you use no more than four hours total.

I will have office hours on Wednesday, Nov. 4, from 10am to noon. You can reach me by phone at 459-3596. Please leave a message. You may send me an email message anytime and I will try to reply quickly (except between the hours of 10pm and 7am). I will be off-line from 8am to 2:30pm on Thursday, Nov. 5. I will try to catch up on all emails after 2:30pm (approx.)

Answer all questions.

1. Summarize the main features of the human capital model, including its main strengths and weaknesses. Explain the difference between private returns to education and public (or social) returns to education. Discuss the problem of “ability bias” in measuring the causal effect of education on earnings. How do studies of twins attempt to measure this bias? What have such studies found?
2. Women receive lower wages, on average, than men of equal age. What concepts of human capital help to explain this phenomenon? Explain. Why does the discrepancy between earnings of men and women grow with age?
3. In its proposals for both the Democratic and Republican parties to consider during the 1992 presidential election, one organization, commenting on the low wages paid by U.S. firms to workers in their Mexican plants, stated, “It is clear that current levels of compensation for these workers have no relationship with their productivity.” Comment on the logic or assumptions of this statement.
4. Suppose a government is considering several options to ensure that legal services are provided to the poor:
 - Option A: All lawyers would be required to devote 5 percent of their work time to the poor, free of charge.
 - Option B: Lawyers would be required to provide 100 hours of work, free of charge, to the poor.
 - Option C: Lawyers who earn over \$150,000 in a given year would have to donate \$15,000 to a fund that the government would use to help the poor gain access to legal assistance.

Analyze these three options. If you can (and you should) use a graph.

5. True, false, or uncertain and **explain**.

“Certain occupations, such as coal mining, are inherently dangerous to workers’ health and safety. Therefore, unambiguously, the most appropriate government policy is the establishment and enforcement of rigid safety and health standards.”