

Problem Set #2
Due December 1, 2009, at the start of class

1. Back in the early 1990s, a report circulated noting that male high school teachers were paid more than female high school teachers. Assuming this is true, what information would you require before judging this fact to be evidence of wage discrimination? In your answer, define wage discrimination and explain how the required information relates to this definition.
2. Suppose that unionized workers in the retail sales industry earn \$10 per hour and that nonunionized workers in the industry earn \$8 per hour. What can be said about the relative wage advantage of unionized workers and the absolute effect of the union on its members' real wage?
3. Suppose the wage distribution for a small town is given below:

<u>Sector</u>	<u>Number of workers</u>	<u>Wage</u>
A	50	\$10/hour
B	25	\$5/hour
C	25	\$5/hour

Then a minimum wage law is passed that doesn't affect the market in high-wage sector A, but boosts wages to \$7/hour in covered sector B, while reducing employment in that sector to 20. Workers displaced from sector B move into sector C, where wages fall to \$4.50/hour as employment increases to 30. Has wage inequality increased or decreased? Explain.

4. In 1955, union density in the U.S. was approximately 35%, nearly all of which was comprised of private sector workers. Since then, union density has fallen to about 12%, a decline of nearly 23 percentage points. Provide explanations (at least five) for the decline of private sector union density in the U.S.