Questions you should be able to answer after doing the reading and attending class

Questions on using elasticities to predict cost incidence

1. What is meant by the term “incidence”?
2. Which employer is more likely to bear the cost of an increase in the minimum wage – one with an elastic demand for labor or one with an inelastic demand for labor? Why?
3. Which employee is more likely to bear the cost of a state requirement that employers “pay for” prescription drug insurance: doctors or nurses aides?
4. Consider the labor market for primary school teachers. Assume that the following conditions exist: Demand exceeds supply; there are few substitutes for teachers in the classroom; teachers are well educated. Now a federal law is passed mandating a new payroll tax to be used to fund government-paid childcare. Who will bear the cost of this tax, the teachers, the school system? Justify your answer.

Questions on Compensating Wage Differentials

1. Give two examples of non-pecuniary aspects of work.
2. A compensating wage differential is the price of what?
3. Give an example of a job characteristic for which one would be paid a positive premium and an example of a job characteristic for which one would be paid a negative premium.
4. What two assumptions underlying the compensating differential framework are most frequently violated in the real world?
5. What does the compensating wage differential do well in the economy?
6. How does the compensating wage differential apply to the job search and recruiting decisions?