

Multiple Choice Questions

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Many of you have experienced teaching fully on line during the lockdown. We did. One of the things we missed more was a perception of whether students were with us on some key steps and intuitions. This is something you get by looking at your students if they are with you in the classroom. On line, with large groups of students often not appearing to minimize problems with connections, this is just not possible. Thus, we thought that we had to produce new tools for instructors filling this gap.

We prepared and tested with our students a set of multiple choice questions that can be used to find out about the level of understanding of the class. We used these questions to organize sorts of referendums during our lectures, asking all students to take a stance (make a choice). Questions are prepared in such a way that they are never mutually exclusive to avoid students to answer like tossing a coin. Needless to say, this method can also be used while teaching in presence. In our view, these tests should not be used to grade students, but simply to decide whether one needs to spend more time on some issues. However, it is also in principle possible to use the questions in the context of written exams.

We thank Olivier Marie for allowing us to use some of his MC questions.

1 Overview

1. Consider the following two statements on individual labor supply decisions:

- (1) Generally substitution effects dominate for low-wage earners while income effect dominates for high wage earners.
- (2) If leisure is an inferior good a wage decrease will decrease hours of work.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

2. Consider the following two statements on individual labor supply decisions:

- (1) The income effect is irrelevant at the participation margin.
- (2) If wages go up the substitution effect always has a positive effect on labor supply.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

3. Consider the following two statements on individual labor supply decisions in a perfect labor market:

- (1) If the choice of hours of work is restricted the reservation wage goes up.
- (2) The reservation wage separates employment from unemployment.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

4. Consider the following two statements:

- (1) If the unemployment rate is 5% and the participation rate is 90%, the employment rate is 85.5%.
- (2) If the unemployment rate goes up, the employment rate always goes down.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (1) is incorrect, statement (2) is correct

5. Consider the following two statements:

- (1) Wages can arbitrarily be set by policymakers independently of labor supply and labor demand.
- (2) There is a fixed number of jobs. If someone leaves the labor market this creates new employment opportunities for the unemployed.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

2 Minimum Wage

1. Consider the following two statements on the minimum wage:

- (1) If the labor supply curve is linear, the slope of the marginal labor costs curve is twice the slope of the labor supply curve.
- (2) A monopsonist maximizes its surplus conditional on being on the labor demand curve.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

2. Consider the following two statements on the minimum wage:

- (1) The introduction of a minimum wage may improve the efficiency of the labor market.
- (2) In a monopsonistic labor market an increase of the minimum wage may reduce employment.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

3. Consider the following two statements on the minimum wage:

- (1) If an increase in the minimum wage causes product prices to go down this is suggestive of a monopsonistic labor market.
- (2) The power of a monopsonist depends on the slope of the labor demand curve.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

4. Consider the following two statements:

- (1) In a monopsonistic labor market an increase in the minimum wage always leads to an increase in employment.
- (2) In a monopsonistic labor market an increase in minimum wage might lead to a increase in product prices.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (1) is incorrect, statement (2) is correct

5. Consider the following two statements:

- (1) Workers and employers representatives cannot negotiate on the statutory minimum wage.
- (2) Introducing a minimum wage in a perfect labor market will always lead to unemployment.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

3 Unions and Collective Bargaining

1. Consider the following two statements:

- (1) An Erga Omnes clause in collective bargaining increases the incentives to become union member.
- (2) The right-to-manage collective bargaining model assumes that employers bargain over both employment and wages.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

2. Consider the following two statements:

- (1) An Erga Omnes clause is an extension of a collective bargaining agreement.
- (2) Unions are stronger in less competitive product markets.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

3. Consider the following two statements:

- (1) The favorability principle in collective bargaining implies that a new contract can only improve the terms of employment as compared to the old contract.
- (2) With efficient bargaining employment will always be larger than in a perfect labor market.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

4. Consider the following two statements:

- (1) In the Ashenfelter-Johnson model the occurrence of strikes is optimal to reveal the financial position of firms.
- (2) Occupational licensing is similar to certification that permits workers to perform a task after passing an examination.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

5. Consider the following two statements:

- (1) The length of the contract curve decreases with competition in the product market.
- (2) In the Hicks' bargaining model firms and unions only negotiate about wages.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

4 Anti-Discrimination Legislation

1. Consider the following two statements:

- (1) Statistical discrimination is individual discrimination – not group discrimination.
- (2) Occupational crowding explains why women have a lower wage in some occupations.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

2. Consider the following two statements:

- (1) In a monopsony model the gender wage gap is explained by differences in demand for men and women.
- (2) In correspondence studies discrimination is established by using actors who are identical except for one characteristic.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

3. Consider the following two statements:

- (1) In the long run co-worker discrimination does not cause wage differences.
- (2) In the long run consumer discrimination does not cause wage differences.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (1) is incorrect, statement (2) is correct

4. Consider the following two statements:

- (1) In Becker's model of prejudiced employers the extent of discrimination is determined by the marginal employer.
- (2) Discrimination can be efficient from an economic point of view.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

5. Consider the following two statements:

- (1) According to the Blinder-Oaxaca decomposition of the wage gap between two groups of workers, differences in rewards for characteristics are considered to be evidence of discrimination.
- (2) Correspondence studies will never underestimate the extent of discrimination.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

5 Regulation of Working Hours

1. Consider the following two statements:

- (1) If social security contributions involve fixed costs, part-time jobs are more costly than full-time jobs.
- (2) Short-time work schemes encourage adjustments along the intensive margin of labor supply.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

2. Consider the following two statements:

- (1) To increase their hours of work, workers always need to be compensated by paying an overtime premium.
- (2) The lump of labor theory is considered to be a fallacy by economists.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

3. Consider the following two statements:

- (1) If a standard working week is reduced in a situation where workers work overtime employment goes down.
- (2) If a standard working week is reduced in a situation where workers work overtime wage costs are reduced.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

4. Consider the following two statements:

- (1) If firms have monopsony power mandatory working-time reductions can lead to an increase in employment.
- (2) Demand for part-time work is lower during recessions.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

5. Consider the following two statements:

- (1) For women, at a cross-country level there is a positive relationship between the share of involuntary part-time work and the share of part-time workers.
- (2) The average hours worked per person of working age is the product of the average hours worked per employee and the employment rate.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

6 Early Retirement Plans

1. Consider the following two statements

- (1) In a pay-as-you-go public pension system current workers are taxed to pay for current retirees.
- (2) In a ‘notional defined’ public pension system contributions are not invested in financial assets.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

2. Consider the following two statements

- (1) A benefit accrual is the increase in pension benefits when retirement is postponed with one year.
- (2) If a benefit accrual is negative a worker will always retire.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

3. Consider the following two statements

- (1) According to the delayed compensation contract (Lazear, 1979) a mandatory retirement age is needed to prevent firms from making losses.
- (2) The age-productivity profile is not exogenous to labor market institutions.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

4. Consider the following two statements:

- (1) Stimulating early retirement is a good instrument to reduce youth unemployment.
- (2) A pension benefit accrual is always an implicit subsidy to earnings.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

5. Consider the following two statements:

- (1) A defined benefit pension system never has a stimulating effect on labor supply.
- (2) A defined contribution pension system values more the most recent contributions.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

7 Family Policies

1. Consider the following two statements

- (1) An increase in the variable costs of childcare will always reduce hours of work of mothers.
- (2) An increase in the fixed costs of childcare will always increase hours of work of mothers.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

2. In 1998 the Norwegian government introduced a cash benefit of approximately 400 Euro per month for parents with 1 year to 3-years old children who did not use state-subsidized day-care facilities. The weekly hours of work of mothers before and after the introduction of the cash benefit were as follows.

- Mothers with children age 1 to 3: Before 24.2; after 23.5
- Mothers with children age 3 to 6: Before 24.5; after 26.5

This implies that the treatment effect of the introduction of the cash benefit on weekly working hours of mothers was:

- (a) 0.3
- (b) 2.8
- (c) -0.7
- (d) -2.7

3. Consider the following two statements:

- (1) Theoretically, if wages of mothers go up fertility goes up.
- (2) Theoretically, in the trade-off between consumption and fertility subsidized childcare always increase fertility.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (1) is incorrect, statement (2) is correct

4. Consider the following two statements:

- (1) Currently, there is a negative cross-country relationship between female labor force participation and fertility rates.
- (2) The so called "child penalty" indicates the magnitude of expenses related to having a child.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

5. Consider the following two statements:

- (1) An increase in the duration of parental leave may stimulate mothers to return to the labor market more quickly.
- (2) Paternity leave is employment protected leave of absence for fathers close the birth of a child.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

8 Education and Training

1. Alice is 16 and has to decide to stay at school or not. If she drops out now, she can get a lifetime wage $w_0 = 500$; if, instead, she chooses to invest s more years in education, her lifetime wage would be $w_s = w_0 + 500 \log(1 + s)$. Each year of schooling costs her 125. There is no discounting. Given this information, how many years will Alice attend school and, given her choice, what will her expected lifetime wage roughly be after leaving education?
 - (a) 3 years of schooling with an expected wage of 1193.
 - (b) 4 years of schooling with an expected wage of 1305.
 - (c) 2 years of schooling with an expected wage of 1049.
 - (d) 5 years of schooling with an expected wage of 1396.
2. Consider the following two statements:
 - (1) In a perfect labor market firms may have an incentive to invest in general training.
 - (2) With firm-specific training a hold-up problem may occur.

What can you say about these two statements?

- (a) Statement (1) is correct, statement (2) is incorrect
 - (b) Statement (1) is incorrect, statement (2) is correct
 - (c) Both statements are correct
 - (d) Both statements are incorrect
3. Consider the paper by Acemoglu and Pischke (1998) looking into on-the-job training in Germany and the following two statements about it:
 - (1) The paper argues that the German apprenticeship system is a good setting to investigate who pays for firm specific training in an imperfect labor market.
 - (2) They find that those who have to quit their training due to military service eventually end up with lower wages than those that stayed on.

Which of the following is true:

- (a) Statement (1) is correct, statement (2) is incorrect
- (b) Statement (1) is incorrect, statement (2) is correct
- (c) Both statements are correct
- (d) Both statements are incorrect

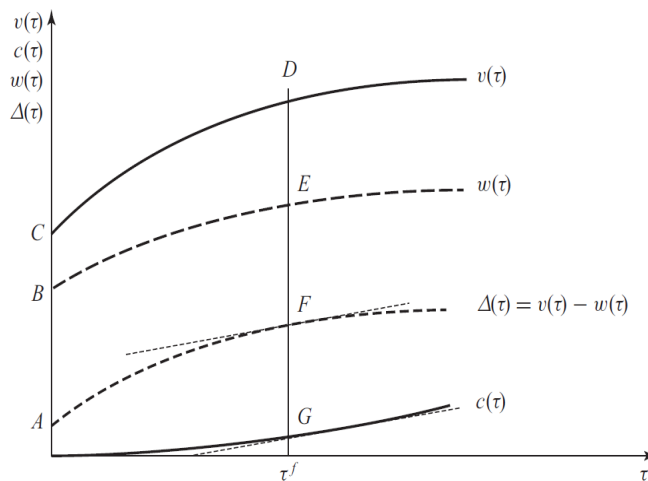
4. Suppose that Tito's wage-schooling locus is given by:

Years of schooling	Earnings
6	1000
7	1200
8	1350
9	1450
10	1500

Which of the following represents Tito's optimal choice:

- (a) With a discount rate of 5% leave school after 9 years
- (b) With a discount rate of 8% leave school after 8 years
- (c) With a discount rate of 8% leave school after 10 years
- (d) With a discount rate of 5% leave school after 10 years

5. The figure below represents the optimal investment decision in general training when there are labor market imperfections due to monopsonistic power of the employer. One central assumption here is that this leads to 'wage compression' in this labor market. How is this represented in this figure?



- (a) The employer pays a wage, w , which is below the employee's productivity, v , for any level of training τ .
- (b) The difference between wage and productivity, $\Delta(\tau)$, increases with level of training.
- (c) The cost of training, $c(\tau)$, increases with level and training but less than the wage, $w(\tau)$.
- (d) All of the above are indicative of wage compression.

9 Migration Policies

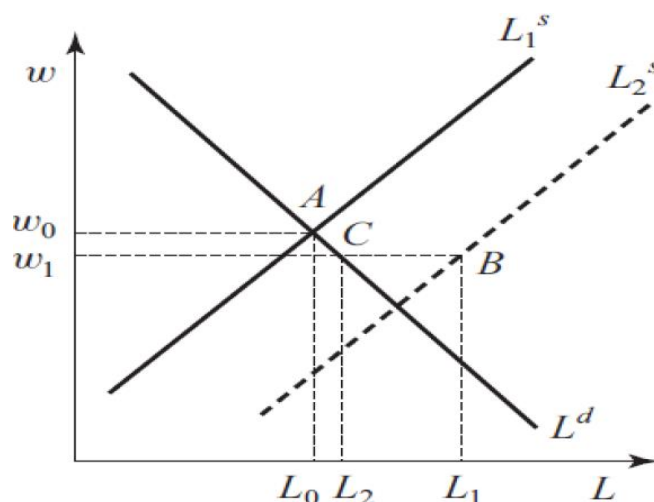
1. In a seminal paper looking at the impact of immigration on employment rate of natives, Card (1990) used the Mariel boat lift from Cuba as an exogenous migration driven labor supply shock to the Miami labor market. Consider these two statements about this study's findings and from a recent re-appraisal from Borjas (2017):

- (1) Card concludes to no impact of migration on employment as he finds no difference in the unemployment rate of low skilled workers in Miami relative to that of others in control cities before and after the 'Marielitos' arrived.
- (2) Borjas argues that low-skilled workers are not the right control group and replaces them with African Americans to find large significant negative labor market effects for this minority group after the arrival of the 'Marielitos'.

Which of the following is true about these two statements?

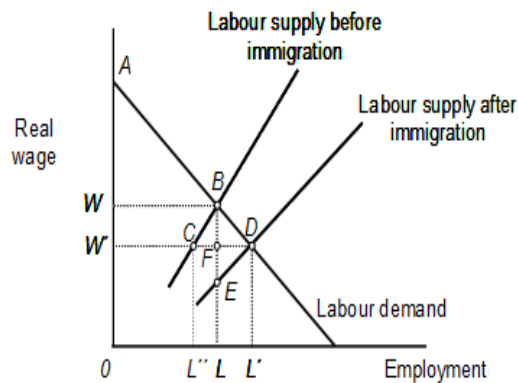
- (a) Statement (1) is correct, statement (2) is incorrect
- (b) Statement (1) is incorrect, statement (2) is correct
- (c) Both statements are correct
- (d) Both statements are incorrect

2. The figure below depicts labor market adjustments in a country after migrant arrival where the labor supply moves from L_1^s to L_2^s and the union negotiated wage drops from w_0 to w_1 . What is true about unemployment in this economy after migration?



- (a) Unemployment is $L_0 - L_2$ for native and $L_2 - L_1$ for foreigners.
- (b) Unemployment is $1/2(L_2 - L_1)$ for foreigners and $1/2(L_2 - L_1)$ natives.
- (c) Migration has no impact on natives' unemployment (pure supply effect).
- (d) None of the above statements are correct.

3. Jan is a Dutch worker who is offered a position in the U.S. His yearly salary is 50,000 in the NL and 150,000 in the US and both will grow at 20% a year. Jan has a discount rate of 10% and will in any case retire in two years. What would his front loaded cost of migration have to be for him to decide to stay in the NL?
- Jan will stay if his front loaded cost of migration is = 210.
 - Jan will stay if his front loaded cost of migration is = 190.
 - Jan will stay if his front loaded cost of migration is = 120.
 - Jan would stay if cases either a. or b. is true.
4. The figure below describes the pre and post migrant influx situations on a country's labor market. As a result of the immigration, the wage drops by 20% to $W' = 20$ Euros. Employment increases 25% from a base of $L = 200$ but 20 natives do not want to provide work at the new wage. How much is the increase in the employer surplus (ΔES) and how much is the migration surplus (MS) in this economy?



- $\Delta ES = 1,125$ and $MS = 250$
 - $\Delta ES = 1,250$ and $MS = 250$
 - $\Delta ES = 1,125$ and $MS = 125$
 - $\Delta ES = 1,000$ and $MS = 125$
5. Consider the following two statements:
- In a perfect labor market immigration leads to a drop of the wages of native workers unless labor demand is perfectly elastic.
 - In a perfect labor market immigration always leads to a drop of employment of native workers.

What can you say about these two statements?

- Both statements are correct
- Both statements are incorrect
- Statement (1) is correct, statement (2) is incorrect
- Statement (2) is correct, statement (1) is incorrect

10 Employment Protection Legislation

1. Consider these two statements related to the potential impact that the introduction of Employment Protection Legislation (EPL) can have on efficiency wage levels.

- (1) EPL decreases the probability of disciplinary layoffs (i.e. due to shirking) which will increase the level of efficiency wages that firms have to pay.
- (2) EPL decreases the probability of economic layoffs (i.e. exogenous separation) which will decrease the level of efficiency wages that firms have to pay.

Which of the following is true:

- (a) Statement (1) is correct, statement (2) is incorrect
- (b) Statement (1) is incorrect, statement (2) is correct
- (c) Both statements are correct
- (d) Both statements are incorrect

2. Consider the following two statements

- (1) According to the delayed compensation contract (Lazear, 1979) a mandatory retirement age is needed to prevent firms from making losses.
- (2) There is no monotonic relationship between EPL and unemployment.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

3. Consider the following two statements

- (1) An EPL tax is a dead-weight cost from the standpoint of an employment relationship.
- (2) In an imperfect labor market, with fixed wages an EPL tax has ambiguous effects on average employment or unemployment.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

4. Consider the following two statements:

- (1) EPL is never neutral with respect to labor market outcomes.
- (2) From an economic point of view, it is important to disentangle the transfer from the tax component of EPL.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

5. Consider the following two statements:

- (1) It is politically easier to implement changes in EPL for temporary work than for permanent contracts.
- (2) In a perfect labor market, under some specific conditions EPL may have no effects on employment, welfare of workers, and profits. This neutrality result (Lazear 1990) holds when three conditions are met: Wages are flexible, workers are risk-neutral and EPL consists only of a tax component.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

11 Regulations on Self-Employment

1. Consider the following two statements:

- (1) One of the key difference between self-employed and employees is that the remuneration of self-employed is of the residual claimant type.
- (2) In a perfect labor market, even low-ability types become entrepreneurs if the market wage is sufficiently low.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

2. Consider the following two statements:

- (1) In a perfect labor market, the critical threshold in entrepreneurial ability increases with the wage of employees.
- (2) In a perfect labor market, a higher equilibrium wage implies a higher number of entrepreneurs.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

3. Consider the following two statements:

- (1) In a perfect labor market, lower-ability entrepreneurs will hire more workers than high-ability entrepreneurs.
- (2) In a perfect labor market, a lower wage will induce more talented entrepreneurs to start producing.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

4. Consider the following two statements:

- (1) In an imperfect labor market, higher start-up costs for entrepreneurs will lead to higher equilibrium unemployment.
- (2) Strict employment protection may prevent a substitution of dependent employment with false self-employment.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

5. Consider the following two statements:

- (1) Entrepreneurship and self-employment are the same thing.
- (2) Entrepreneurship is a risky activity and missing markets for risk-sharing may induce too little investment from a society perspective.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

12 Unemployment Benefits and Active Labor Market Policies

1. Consider the following statements about the impact of the introduction of unemployment benefits (UBs) on individual labor supply in an imperfect labor market:
 - (1) They could lead to less employed individuals becoming unemployed.
 - (2) They could lead to more inactive individuals becoming unemployed.

Which of the following is true about these two statements?

- (a) Statement (1) is correct, statement (2) is incorrect
 - (b) Statement (1) is incorrect, statement (2) is correct
 - (c) Both statements are correct
 - (d) Both statements are incorrect
2. The positive association between generous UBs and unemployment duration can be caused by both moral hazard and/or liquidity constraints. Research suggests that:
 - (1) It would be possible to alleviate most of the moral hazard channel by offering private provision of unemployment insurance.
 - (2) If a lump sum payment at the moment of job loss changes unemployment duration, then this is evidence of the liquidity constraint channel.

Which of the following is true about these two statements?

- (a) Statement (1) is correct, statement (2) is incorrect
 - (b) Statement (1) is incorrect, statement (2) is correct
 - (c) Both statements are correct
 - (d) Both statements are incorrect
3. In competitive labor markets, unemployment benefits affect labor market outcomes along two main channels:
 - (1) Participation effect: by increasing the (static) reservation wage of individuals, more people will supply labor at any given market wage.
 - (2) Taxation effects: through the increased taxation (generally payroll taxes) required to finance unemployment benefits.

Which of the following is true about these two statements?

- (a) Statement (1) is correct, statement (2) is incorrect
- (b) Statement (1) is incorrect, statement (2) is correct
- (c) Both statements are correct
- (d) Both statements are incorrect

4. The Beveridge Curve can be described by the following simple aggregate matching function $m = AU^{0.5}V^{0.5}$ in which m is the number of matches per time period, U is the stock of unemployed workers, V is the stock of vacancies, and A represents the efficiency of the matching process. The job separation rate is δ . There is a steady state labor market with a constant labor force of 125, and there are 25 unemployed and 25 vacancies. If this is the case, then it must be true that:

- (a) The ratio $A/\delta = 4$
- (b) The ratio $A/\delta = 0.25$
- (c) The ratio $A/\delta = 0.4$
- (d) The ratio $A/\delta = 2.5$

5. Which of the following statements is true:

- (a) The Beveridge curve establishes an equilibrium relationship between unemployment and vacancies which is theoretically assumed to move up when efficient match enhancing labor market policies (ALMP) are introduced in an economy.
- (b) The Beveridge curve establishes an equilibrium relationship between job search effort and vacancies which is theoretically assumed to become flatter when efficient match enhancing labor market policies (ALMP) are introduced in an economy.
- (c) The Beveridge curve establishes an equilibrium relationship between unemployment and vacancies which is theoretically assumed to move down when efficient match enhancing labor market policies (ALMP) are introduced in an economy.
- (d) The Beveridge curve establishes an equilibrium relationship between job search effort and unemployment which is theoretically assumed to move up when efficient match enhancing labor market policies (ALMP) are introduced in an economy.

13 Health-Related Labor Policies

1. Consider the following two statements:

- (1) A hedonic wage function represents the trade-off between wages and injury risks for individual workers.
- (2) In a competitive labor market the zero-profit condition determines labor market outcomes in terms of wages and injury risks.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

2. Consider the following two statements:

- (1) With an annual fatal accident rate of 0.01% a Value of Statistical Life of 12 million Euro implies a monthly wage difference between a risky and a non-risky job of 100 Euro.
- (2) Introducing binding safety standards in a monopsonistic labor market will reduce profits of the monopsonist.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

3. Consider the following two statements:

- (1) A hedonic wage function describes observed market relationship between injury risks and wages.
- (2) In a competitive labor market, a hedonic wage function consists of tangency points between zero-iso-profits curves and utility functions of workers.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (1) is incorrect, statement (2) is correct

4. Consider the following two statements:

- (1) If a binding safety standard is introduced in a monopsonistic labor market in which workers have a reservation utility firm profits go down.
- (2) If a binding safety standard is introduced in a competitive labor market workers are worse-off.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (1) is incorrect, statement (2) is correct

5. Consider the following two statements:

- (1) Absenteeism imposes costs to employers, presenteeism is good for profits.
- (2) Reducing absenteeism is always good for profits.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

14 Payroll Taxes

1. Consider the following two statements:

- (1) A progressive tax system is bound to affect individual labor supply more along the intensive than the extensive margin;
- (2) Economic theory suggests that the level of taxation is often more important than the structure of taxation in affecting labor market outcomes.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect.

2. Consider the following two statements:

- (1) A payroll tax has strong negative effects on employment when the labor demand is inelastic.
- (2) A payroll tax has strong negative effects on employment when the labor supply is inelastic.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect.

3. Consider the following two statements:

- (1) The period of introduction of in-work benefits is called phase-in.
- (2) In-work benefits, just like Minimum Guaranteed Income schemes, may reduce work incentives.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

4. Consider the following two statements:

- (1) Progressive taxes imply that the marginal tax rate is higher than the average tax rates.
- (2) The tax wedge is equal to the difference between gross wages and net wages.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

5. Consider the following two statements:

- (1) A change in payroll taxes is fully shifted to wages if labor supply is inelastic.
- (2) In the full valuation model, a change in payroll taxes is fully shifted to wages.

What can you say about these two statements?

- (a) Both statements are correct
- (b) Both statements are incorrect
- (c) Statement (1) is correct, statement (2) is incorrect
- (d) Statement (2) is correct, statement (1) is incorrect

15 Answer-grid

Chapter	Question				
	1	2	3	4	5
1	a	a	c	c	b
2	c	a	c	d	b
3	b	a	b	c	a
4	c	b	c	c	c
5	a	d	c	c	d
6	a	b	a	b	b
7	b	d	d	b	a
8	a	b	d	a	b
9	d	d	a	c	c
10	c	a	a	d	c
11	a	c	b	c	d
12	b	b	b	a	c
13	d	a	a	a	b
14	c	b	d	c	a