

1. Consider the following estimated wage equations for men:

$$W = 2.0 + .5 \text{ Education} + .2 \text{ Experience}$$

The average levels of education and experience are as follows:

	<u>Education</u>	<u>Experience</u>
Men	14	10
Women	13	6

Suppose the average wage for men is \$7.10 and the average wage for women is \$5.00.

- Based on the information provided, decompose the \$2.10 difference in average wages into "discriminatory" (unexplained) and "nondiscriminatory" (explained) parts.
- Suppose that another important determinant of wages is whether the worker is employed by a union. If women are less likely to be unionized than men, how does the omission of this variable from the regression affect the size of the "nondiscriminatory" gap? Explain.
- Suppose that education is not identical for all types of workers and, on average, educational quality is higher for women than men. Given this differential quality and the lack of control for it, would the above estimate of discrimination against women be too high or too low? Explain.

2. Suppose that there are two types of workers that are equally productive -- natives and immigrants. The primary difference between the two is that immigrants are less willing to move in response to a wage change because they are unwilling to leave the immigrant community that they live in. Hence, if a firm cuts its wages, it will lose more native than immigrant workers. Given the implications for the elasticity of labor supply for the two groups, which workers will receive higher pay? Explain with the appropriate graphic analysis.

3a. Economic models of discrimination point out that employer discrimination may lead to lower profits and eventually drive discriminating employers out of business. Explain why this occurs.

b. In some cases, employer discrimination could actually enhance profits. Explain how.

4. In a recent study (Neumark, Bank and Nort, 1995), it was reported that high priced restaurants were much less likely to hire women than men, controlling for the credentials of the applicants. If this was due to employer discrimination, why would this be costly? If this was due to customer discrimination, who would "pay" for the discrimination? If it was due to employee discrimination, how could employers improve their profitability?

5a. This question refers to the article by Caroline Hoxby that we discussed in class. Review the abstract and discuss how the “asymmetry of peer effects” (or lack thereof) is relevant to the desirability of grouping students in terms of ability. Also, how is asymmetry relevant to the debate over the desirability of school vouchers?

5a. This question refers to the article by Caroline Hoxby that we discussed in class. Review the abstract and discuss how the “asymmetry of peer effects” (or lack thereof) is relevant to the desirability of grouping students in terms of ability. Also, how is asymmetry relevant to the debate over the desirability of school vouchers?

b. What was the evidence on peer effects as it relates to boys versus girls?

c. What was the evidence on peer effects as it relates to high versus low performers? How did these effects vary by racial and ethnic status?

6a. Based on the article discussed in class, explain how sex differences in the willingness to put up with fatality risk on the job contributes to the gender wage gap.

b. Based on the article discussed in class, explain how gender differences in the elasticity of labor supply affects the gender wage gap.

c. Based on the report by the Presidential Council of Economic Advisors discussed in class, what were the main factors leading to a decrease in the gender wage gap over the past 20 years?