Executive compensation.

1. Explain why and how stockholders may want to adjust CEO pay according to (i) the CEO's age; and (ii) the size of the firm.
2. Explain why "the more stock owned the less compensation is needed..." for CEOs.
3. Explain how the tax legislation enacted in 1992-93 altered the structure of CEO compensation. Also, what was the rationale for this legislation?
4. How can the structure of CEO pay lead to "earnings management"?
5. How could LTPPs and managerial stock ownership be substitutes for each other?
6. Pay-for-performance contracts are generally viewed as enhancing work effort on the part of CEOs and therefore a "good" part of CEO compensation. From the stockholders' perspective, what negative aspects are there to increasing the share of compensation determined by "performance"?

Social Security.

1. The paper describes how changes in a company's defined benefit plan would affect retirement behavior. Describe the three changes considered, the predicted effects on retirement age, and the observed direction of the effects on retirement age. Justify the predicted effects using models developed earlier in the course.
2. Who are the "notch babies" and what is significant about them?
3. How was the retirement behavior of "notch babies" expected to differ from other workers? Why?
4. Did the empirical evidence support the prediction for the notch babies?
5. What does it mean to be a "dually entitled" person?
6. How and why would "dual entitlement" affect retirement behavior?
7. Was the statistical analysis consistent with the predicted effect of dual entitlement on retirement behavior?
8. What explanations were provided for the trend toward earlier retirements among men from 1970 to 1990?

Wage Inequality.

1. According to the theory of compensating differences, a worker should give up $1 of wages to get $1 of fringes. However, data suggests that workers with higher wages generally have higher fringe benefit packages as well. Does the data contradict the theory of compensating differences? Why or why not?
2. Many studies of income inequality consider earnings but not the value of fringe benefits like private pensions. How does the failure to account for pension compensation affect the estimated return to education? the estimated effect of unions on wages? Why?
3. Why does the omission of Social Security from studies of income inequality have a different effect than the omission of private pensions?
4. What would cause "lifetime earnings inequality to be less than annual earnings inequality"?
5. If a policy maker is concerned about increased inequality in the standard of living, should they be more concerned with lifetime earnings inequality or annual earnings inequality? Why?
6. Explain how changes in the return to education have affected the wage gap between black and white workers.
7. How could trade patterns explain the rising wage inequality in the United States?

**Unions.**

1. "In 1973/74 the mean log wages between the two (union and non-union) were very similar to the adjusted wage gaps; however, in 1993 the unadjusted wage gaps were higher than the corresponding adjusted gaps". Unadjusted wage gaps are raw differences in wages. Adjusted wage gaps are differences in wages that cannot be accounted for by differences in worker characteristics (e.g. education, experience). Given the above statements, what can be concluded about the relative "quality" of the average worker in the union and nonunion sectors in 1973/74? in 1993? Explain.
2. How do the trends in unionization rates compare for private and public sector workers? What occupational group accounts for the larger increase in public sector unions? How is the growth in public sector unionism likely to affect the wage gap between private and public sector workers? Why?
3. Why does unionization increase the likelihood that workers have health insurance?
4. How could unionization reduce worker effort?
5. Given the effect of unions on wages, if a group of employees unionize, what types of workers are most likely to win from unionization? What types of workers are most likely to lose from unionization?

**Immigration.**

1. Describe the three different periods of immigration law in the U.S.
2. How does immigration cause “capital dilution” and how would this affect labor productivity?
3. Why is it believed that increased immigration could increase the level of saving in the economy?
4. What does the evidence suggest has happened to the average “quality” of immigrant workers in the U.S. over time?
5. Suppose that one country has higher income inequality than another. How would this affect the kind of worker that migrates from the country with high inequality to the country with low inequality? the kind of worker that migrates from the country with low inequality to the country with high inequality? Explain.
6. Explain how skill transferability between nations would affect the level and growth of an immigrant’s earnings.

**Age Discrimination**

1. What is the ADEA? When was it passed and what does it prohibit?
2. Suppose two workers are equally productive and paid identical wages. Explain how each of the following could influence the firms decision of whether to lay off the young versus old worker: (i) health insurance coverage; (ii) DB pension coverage; (iii) DC pension coverage; (iv)
the level of firm specific training workers receive. How would each of the preceding affect the firms willingness to hire a young versus older worker? Why?

3. How does the combination of pension and a mandatory retirement rule help deal with the "shirking" problem in the workplace?

4. There is evidence that workers with mandatory retirement retire earlier than workers without mandatory retirement. This is cited as evidence against the Lazear model of mandatory retirement since the Lazear model suggests that the mandatory retirement age is what the worker would have chosen anyway. If there is no mandatory retirement law, why wouldn’t you expect the average retirement age in all jobs to be the same? How could this reconcile the Lazear theory that mandatory retirement doesn’t affect retirement age with the evidence that workers with mandatory retirement have earlier retirement ages?

Minimum Wage Laws.

1. On p.2, it is stated that "Because of inflation and the price level, the percentage of non-supervisory wage and salary workers that are covered by the minimum wage laws has increased to 70% from the original percentage of 43%." Inflation is not the reason that a larger percentage of workers are covered by the minimum wage law. What is the real reason?

2. According to evidence presented in the paper, the real value of the minimum wage peaked around 1970. The nominal value peaked around 2000. Why would the timing of the peaks differ? Would the answers change if a different base year was used for computing real wages?

3. Some argue that an increase in the minimum wage would help reduce poverty by increasing incomes of workers with the lowest wages. Others argue it would do little to reduce poverty rates. Explain how the effect of minimum wages on employment, wage growth, and training could cause poverty rates to rise.

4. How could an increase in the minimum wage cause a reduction in training?

5. Explain how the Lang and Kahn predictions for the employment effects of a minimum wage hike contrast to the "standard" model. For example, which workers are most likely to lose employment in the Lang and Kahn model and which workers are most likely to increase employment? What is the net effect on total employment?

6. What is a "living wage" and what types of workers are usually covered by the law? exempt from the law?

7. If a living wage ordinance is passed and a firm is forced to increase its wage from $5.15 to $10.00 per hour, how is "productivity" likely to be affected? Define productivity and explain why it would change in the direction indicated.

8. Suppose that a living wage ordinance is passed forcing any firm with a city contract to pay all its workers at or above the living wage. How would you expect this to affect the number of firms that are willing to place a bid on a city project? Explain (hint: think of firms with differing percentage of sales tied to city contracts.)
Incentive Pay Programs.

1. Describe the ways that a profit sharing program could increase productivity and why the effect might be smaller in a small firm than in a large firm.
2. Describe the change in compensation methods in the Safelite glass company and the two distinct effects of the change on worker productivity.
3. Why did the change in the Safelite glass company's compensation affect concerns about "quality"? How did Safelite address the concerns with quality?
4. What factors are important in determining whether a company is likely to benefit from pursuing Safelite's strategy in changing its method of compensation? Explain.
5. On p.12 -14, a particular form of corporate governance is proposed for improving corporate performance? What evidence was presented as a test of whether such a change has an effect? What was the result?
6. If a firm wants to give its CEO incentive pay, it can choose between a stock option and stock. If choosing between an equal dollar amount of the two forms of pay, what advantage do stocks have? what advantage do stock options have?
7. From the shareholders' perspective, why might a CEO avoid "too many" risky projects? Explain.
8. Explain how and why each of the following is likely to affect the optimal mixture between salary and incentive pay in CEO compensation.
   a. CEO age.
   b. the ability to monitor CEO performance.
   c. the firm's debt leverage.
   d. the concentration of stock holdings among outside investors (i.e. do many stockholders hold a small share of the company, or a few stockholders hold a large share?)