



Final Exam 2017
Labor and Human Resource Economics
ECON 16100 (3 SKS)

Instructor : I Dewa Gede Karma Wisana

Date : May 26, 2017

Duration : 150 MINUTES (2.5 hours)

Examination aids :

You are allowed to use a two-way Indonesia – English dictionary and/or an English – English dictionary (excluding a dictionary of economic concepts). It is OK to use calculator, although it may not necessary. **NO text books or lecture notes are allowed** (*closed books*)

Instructions: Please look over the exam to ensure that there are two (2) pages.

- There are 5 (five) questions and you have to answer all questions. Please read the detail description for each question carefully!
- Point totals are provided after each question.
- Some questions are worth more than others – be sure to plan your time accordingly.
- You are **encouraged** to answer in English. If you have any difficulties to explain your comprehensive answer in English, you may use both English and Bahasa Indonesia.
- Be sure to relate your answers to the concepts discussed in class. Avoid unnecessary and irrelevant information as this adversely affects the quality of an answer.
- Clarify all necessary assumptions or conditions to defend your arguments
- Good luck!

Kanopi FEBUI
Unity in Development



[All prices in thousand (000) IDR currency unit]

1. Consider two type of job, A and B. The demand for labor in Job A is

$$L_D = 20 - W,$$

where L_D = number of workers demanded for that job, in thousands. The supply of labor for Job A is

$$L_{S(A)} = -1.25 + 0.5W.$$

For Job B, the demand for labor is similar, but the supply of labor is

$$L_{S(B)} = -0.5 + 0.6W,$$

which is indicative of a more pleasant environment associated with that job in comparison with Job A. What is the compensating wage differential between the two jobs? **[20 credits]**

2. Suppose that $MRP_L = 20 - 0.5L$ for left-handed workers, where L = the number of left-handed workers and MRP_L is measured in IDR per hour. The wage for left-handed workers is IDR 10 per hour, but employer A discriminates against these workers and has a discrimination coefficient, D , of IDR 2 per hour. Graph the MRP_L curve and show how many left-handed workers employer A hires. How much profit has employer A lost by discriminating? **[20 credits]**

(a) Different individuals pursue different amounts of human capital investment in part because of differences in the perceived net benefits of such investments. Discuss the factors that generate those differences in perceived net benefits. [Hint: Illustrate with graphs and description on how rationally people choose whether to go further for higher education] **[10 credits]**

(b) Conventional estimates of rates of return to education are often viewed as biased due to inadequate controls for worker ability and to measurement error problems. Discuss how this bias emerges **[10 credits]**

(c) "Workers with more training should exhibit greater employment stability and a lower layoff rate than workers with less training." True, false, or uncertain. Explain. **[10 credits]**

4. Describe about the long debate over the relationship between population and economic development, whether it is negative, positive, or neutral. Describe your explanation using the framework of thinking from the (1) traditionalist, (2) revisionist, (3) population does-matter **[15 credits]**

5. Explain intuitively the fundamental nature of Todaro migration model as represented by following mathematical equation:

$$V(O) = \int_{t=0}^n [p(t)Y_u(t) - Y_r(t)]e^{-it} dt - C(0)$$

[15 credits]