



Mid-Semester Exam 2017
Labor and Human Resource Economics
ECON 16100 (3 SKS)

Instructor : I Dewa Gede Karma Wisana
Date : March 24, 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). **NO text books or lecture notes are allowed** (*closed books*)

Instructions: Please look over the exam to ensure that there are three (3) 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. However, please don't mix the sentences with two languages to avoid confusion.
- 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.
- You may use calculator, though it is not necessary, I reckon!
- Break a leg!



1. Company Marvel Comics (M) has for some time hired skilled cartoonists on one-year contracts to work at a remote studio in Asia. It offers a \$10,000 signing bonus (considered this as non-labor income) and an hourly wage rate of \$20 per hour. Company DC Comics (DC) just enters the Asian market and offers no signing bonus, but offers an hourly wage of \$25. Both comics maker want to attract talented cartoonists who will work longer than 2,000 hours during the year (if they do they are paid at their straight-time wage rate given above).
- a) First, suppose that cartoonists receive offers from both comics maker; draw, on the same graph, the budget constraint for the coming year under both offers. (Clearly label which is Company M and which is company DC) **[10 credits]**
- b) Second, consider a cartoonist for Company M who choose to work 2,500 hours last year. Suppose that her contract is up and that she now has offers from both Company M and Company DC. Can you tell which offer she will choose, assuming her preferences for income and household time have not changed? Explain (or demonstrate). If she changes companies, will she continue to work 2,500 hours, or will she increase hours or reduce them? Explain fully. **[15 credits]**
2. Write down and explain the maximisation objective, constraints, and first-order conditions that would characterise whether an individual participates in the labor market and, if so, how many hours to supply. **[20 credits]**

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3. Consider the impact on labor supply of a decrease in the overtime salary system (i.e., the wage rates for all hours worked in excess of eight hours per day) from twice the normal hourly wage rate to one-and-a-half times the normal hourly wage rate.
- a) Carefully graph the impact on a worker's budget constraint. **[5 credits]**
 - b) Are workers better-off or worse-off from this wage change? Explain. **[10 credits]**
 - c) Would workers who previously did NOT work overtime choose to work more or fewer hours given this change in overtime wage rates? Explain. **[5 credits]**
 - d) Would workers who previously DID work overtime choose to work more or fewer hours given this change in overtime wage rates? Explain. **[5 credits]**
4. a) Describe how household production theory helps explain the pattern of female labor supply over the lifecycle of women? **[10 credits]**
- b) Is the following statement true, false or uncertain: "If a married women's husband gets a raise, she tends to work less, but if she gets a raise she tends to work more." Explain your answer. **[10 credits]**
5. The unemployment rate in Neverland Country is currently over 10 percent, and the youth (under age 25) unemployment rate is 22 percent. This is creating somewhat of a crisis in Neverland Country, and over the next five years, one million people on the unemployment rolls will be offered subsidised jobs (the government subsidy will go to employers who create new jobs, and the subsidy will be NCC 100 per hour per employee hired (NCC: Neverland Country Currency unit). Explain (or demonstrate) how wage subsidies to employers are likely to affect employment levels in Neverland Country. **[10 credits]**