Exam in the Course:

Topics in Labor Economics

10 July 2008

You have to provide answers to so many of the following 9 problems that the total number of achievable credits (for the problems you provide answers for) is equal to 40. If you answer more problems (i.e. the sum of achievable credits is above 40), only the answers to those problems with the lowest numbers will count up to a maximum of 40 achievable credits.

Your answers have to be in English. Only, if you are a diploma student, your answers can be either in English or in German. In case, please mark at the beginning of the exam, that you are a ‘DIPLOMA’ student.

The maximum number of credits is 40.

The exam lasts 120 minutes.

Use a new answer sheet for each problem.

Please write your name and your immatriculation number (“Matrikelnummer”) on top of all answer sheets, if applicable.

The exam consists of 4 pages including this cover page. Please check its completeness.

This is a closed-book exam.

Good Luck!
Please provide answers to
– four 10-credits-problems, or
– three 10-credits-problems and two 5-credits-problems, or
– two 10-credits-problems and four 5-credits-problems.
On the answer sheets, mark clearly which problems you solve.

1.) Describe the basic intertemporal labor supply model with additively separable preferences over time. What is the Frisch labor supply function? What are the labor supply responses to evolutionary wage changes and to parametric wage changes? When modelling empirically the intertemporal labor supply, how does MaCurdy’s approach capture the life cycle effect?

[10 credits]

2.) Sketch Card’s basic economic model to explain the amount of human capital investment. What are the implications of this model for the estimation of the causal returns to education? In this context, explain the economic meaning of “Ability-Bias”, “Self-Selection-Bias”, and “Measurement-error-Bias”.

[10 credits]


[10 credits]
4.) Suppose you are interested in answering the question about the effect that living in an ethnic enclave has on the economic outcomes of immigrants.

a) Give at least two explanations as to why living in an enclave may influence the outcomes of minority individuals.

b) Suppose now you want to empirically estimate the causal effect of ethnic enclaves on economic outcomes. Briefly discuss the main problem that is involved in this analysis. Consider the paper by Edin and et al. (2003) on 'Ethnic Enclaves And The Economic Success Of Immigrants - Evidence From A Natural Experiment’ published in The Quarterly Journal of Economics, 118, pp. 329–357. How do they solve the problem? Give details of their approach and discuss their findings.

c) Suppose now you wish to investigate the effects of the quality of the ethnic group (measured in term of their average income) on living in an enclave. How would you do that?

[10 credits]

5.) a) Give at least two channels why mothers’ education may affect their children’s birth outcomes, such as birth weight or gestation period?

b) Suppose you want to estimate the causal impact of mothers’ education on child outcomes. Briefly explain the main challenges involved in the analysis.

c) McCrary and Royer (2006) identify the causal impact using a regression discontinuity design, and compare the children of mothers who were born just before and just after the cut-off date in school entry. Explain this strategy. How does it improve over Angrist and Krueger who use the quarter of birth as an instrument for education?

[10 credits]

6.) The task-based approach to technological change diverges from the tradition skill-bias technological change hypothesis in its prediction which group of workers is most affected by technological changes. What are the predictions derived from both theories? What pattern of employment changes across skill groups should one observe?

[5 credits]
7.) The question whether business start-ups face credit rationing in the capital market has a long tradition in the economics literature. Evans and Jovanovic (EJ, 1989) propose a model of credit rationing which has become famous for its testable implications. Describe the model’s main assumptions, mechanisms, and implications. (Note: A formal derivation of the model is not necessary.) Which type of credit rationing does the model capture? Discuss potential drawbacks and resp. remedies when estimating the model based on population census data.

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[5 credits]

8.) What are the advantages and disadvantages of using linked employer-employee data sets? Support your arguments by an empirical example.

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[5 credits]

9.) Summarize the advantages and disadvantages of administrative individual data for applied labour market research. Why are data preparation decisions of particular importance for the modelling of transition times between labour market states? Illustrate your main reasoning by an example.

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[5 credits]

END OF EXAM