

Ec317
Labour Economics
Problem Set 8

1. The economy consists of two sectors, 1 and 2, employing a homogeneous workforce. Total labour supply is completely inelastic, but there is perfect worker mobility between sectors.
 - (a) Starting from an initial equilibrium, what happens to wages and employment in each sector when technical change in sector 1 improves productivity in that sector, say by changing the production function from $f_1(L)$ to $Af_1(L)$ with $A > 1$?
 - (b) Suppose there is a minimum wage imposed on sector 2, which is binding both before and after the technical change takes place in sector 1. What happens to wages and employment in each sector after the technical change takes place?
 - (c) Suppose, as in b., that there is a binding minimum wage in sector 2. Now, workers are not willing to work at all below a reservation wage, but supply their labour again inelastically above that wage. What happens to wages and employment in each sector, and to unemployment after the technical change takes place?
 - (d) Return to the original economy. There is an influx of immigrants into the economy, who are identical to the native workforce and who also supply their labour inelastically. What happens to wages and employment in each sector after the immigrant inflow? What happens to the employment of natives and why?