Ec317 Labour Economics Problem Set 9

- 1. Jane has 3 years of college and earns £21 per hour, Pam has 2 years of college and earns £19 per hour, and Mary has 1 year of college and earns £16 per hour. If we know that their abilities are the same and the differences in their educational attainment are purely due to different discount rates, how much can we deduce about Jane, Pam, and Mary's discount rates from the information given?
- 2. A rising number of persons in the US obtain their high school diploma by passing an equivalency exam (called the General Equivalency Diploma or GED) rather than by going to school for 12 years and graduating from high school. GED holders were only 5 percent of all high school graduates in 1968 but 14 percent by 1987. A recent study by John Tyler, Richard Murnane, and John Willet on the labor market value of the GED compares individuals who attempted the exam in states with different passing standards for the diploma. They find that exam takers who score alike have about 15 percent higher earnings a few years after the exam if their state allowed them to receive the GED credential. It is possible to obtain a GED after dropping out as early as grade 10. Students who take the GED study on average 30 hours for the exam. Using both the human capital and the signalling model, discuss whether you would expect Wages to go up once an individual obtains the GED and whether you would expect GED holders to earn the same wages as workers who have actually graduated from high school. What other information might be relevant to answer this question?