



**THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED**

**Q.1. Answer the following short questions.**

**(6x5=30)**

- i. Why the demand for labour is called a 'derived demand'? Other than the demand for labour, what would be another example of a 'derived demand'?
- ii. Why does a profit-maximizing firm hire workers up to the point where the wage equals the value of marginal product?
- iii. Why might a labor supply curve be backward bending?
- iv. Why is the wage-schooling locus upward sloping and concave?
- v. Derive the Oaxaca measure of discrimination.
- vi. What is reservation wage?

**Answer the following questions.**

**Q2. a) Describe the impact of a payroll tax on wages and employment in a competitive industry. Why is part of the tax shifted to workers? What is the deadweight loss of the payroll tax?**

**b) Why does the payroll tax have the same impact on wages and employment regardless of whether it is imposed on workers or on firms?**

**(13+7)**

**Q3. What happens to hours of work when the wage rate falls? Decompose the change in hours of work into income and substitution effects.**

**(10)**