

UNIVERSITY COLLEGE LONDON

EXAMINATION FOR INTERNAL STUDENTS

MODULE CODE : ECON7004

ASSESSMENT : ECON7004A
PATTERN

MODULE NAME : Economics of Industrial Relations

DATE : 28 April 2016

TIME : 10:00 am

TIME ALLOWED : 2 hours

This paper is suitable for candidates who attended classes for this module in the following academic year(s):

2015/16

SUMMER TERM 2016

ECON7004: THE ECONOMICS OF INDUSTRIAL RELATIONS

TIME ALLOWANCE: 2 HOURS

Answer **ALL** questions in Part A, **TWO** questions from Part B, and **TWO** questions from Part C.

Questions in Part A carry 4 per cent of the total mark each, questions in Part B carry 20 per cent of the total mark each, and questions in Part C carry 14 per cent of the total mark each.

In cases where a student answers more questions than requested by the examination rubric, the policy of the Economics Department is that the student's first set of answers up to the required number will be the ones that count (not the best answers). All remaining answers will be ignored.

SECTION B: Answer ANY 2 of the questions below (20 marks each)

B1. a) [10 marks] In her textbook on trade unions, Alison Booth writes: "The orthodox view of monopoly trade unions is that they achieve a monopoly wage gain at the expense of one or more parties [...]. While the monopoly 'face' of trade unions focuses on the negative aspects of unionism, an alternative view of unions is that in some circumstances they may be efficiency-enhancing."

- (i) Briefly explain how the presence of a union might increase the efficiency of a firm's operations.
- (ii) Does empirical evidence support the hypothesis that unions are efficiency-enhancing?

b) [10 marks] Suppose that a firm's labor demand curve is given by $w = 100 - 0.02N$ where w is the wage per hour and N is the employment. The union's utility is given by $U = wN$. What wage would a monopoly union demand? What would the employment level be under this union contract? Illustrate your answer using a relevant graph.

B2. The fact that pay rises with seniority is well documented.

a) [10 marks] Give at least three explanations for this fact, explaining your theories with graphs if relevant.

b) [10 marks] It has also been found that workers tend to get paid less than their productivity in the early parts of their careers, while in the later parts of their career, they get paid more than their productivity. Relate this finding to the theories you have explained in (a) above.

B3. a) [10 marks] Suppose that individual effort is productive but unobservable to the firm and workers dislike putting in effort.

- i. Explain how the variance of a performance measure plays a role in the determination of a wage contract when the workers are risk averse.
- ii. Is it always preferable to use a measure of performance that has a low variance over one that has a higher variance? Explain.

b) [10 marks] Firms are increasingly offering training programmes to their employees, and many argue that these programmes are used as signals of ability or commitment. Explain how this might be so, using diagrams where relevant.

B4. a) [10 marks] Using either graphical or algebraic analysis, show why the outcomes in both the monopoly union and right to manage models are inefficient. Explain how bargaining over both employment and wages might do away with this inefficiency.

b) [10 marks] "When firm-specific human capital is important, the firm maximizes its profits by laying off from both ends of the seniority distribution first." Discuss.

CONTINUED

SECTION C: Answer ANY 2 of the questions below (14 marks each)

C1. What determines CEO pay in real life? Using theoretical models as well as reference to at least one case you have studied in this module, explain how this may differ from the optimal design of CEO pay, what challenges are presented by such differences and how you might design a pay package to address these challenges.

C2. If you were a government adviser faced with an imminent strike in a “sensitive” sector, how would you respond? Referring to at least one case you have studied in this module, discuss how the characteristics of the sector determine your response, and how you would respond with the welfare of all the stakeholders in mind.

C3. This question involves designing a rewards system to motivate workers. Using a case you have studied in this module, discuss how you would use peer, supervisor and other evaluations as well as “objective” measures to design such a system. Be as specific as you can about the type of worker and the type of firm you are discussing.

C4. Suppose you were hired by a firm to help in their recruitment process. Use a case you have studied in this module to (i) identify the challenges in the hiring process and (ii) suggest concrete ways to address these challenges and design an optimal hiring process.

END OF PAPER