

1. In 1986 the federal government was considering the removal of prohibitions on the production of various garments by independent contractors working out of their homes. These prohibitions had been in effect since 1942 and were originally introduced with the goal of preventing the alleged exploitation of homeworkers, who received very low wages from the manufacturers who employed them. Evaluate the assertion that the wage differential between factory workers and homeworkers is a good measure of the degree to which homeworkers are exploited.
2. Using the theory of human capital, explain how a substantial increase in the immigration of low-skilled workers would affect college attendance among native-born individuals, if at all.
3. "The gap between the wages of high and low wage workers has grown in recent years, but the theory of investment in human capital predicts that this trend will correct itself." Explain why this might be at least partly true.
4. Suppose the government introduced a new program that provided a substantial increase in financial aid for college, and financed it by increasing taxes on the incomes of the college educated. Examine how this policy would affect years of college, using human capital theory.
5. Under the old apprenticeship system, teenage boys were employed by master craftsmen and trained in a trade, such as shoemaking or carpentry. Apprentices were paid very low wages (less than an unskilled laborer). Although an apprentice might have learned enough after 1-2 years to go into the trade on their own, their contract generally required them to stay with their master at apprentice wages for a period of 5-7 years, before being certified as a qualified craftsman.

Discuss the apprenticeship system using the theory of human capital. Sketch a diagram showing the apprentice's productivity and pay over time. Do the basic rules of apprenticeship suggest that apprentices were learning general or firm-specific skills? Can you see any potential problems with the apprenticeship system that might have made it impractical? Explain.

6. A statistician has estimated the following earnings equation:

$$\ln(Y) = 9.1 + 0.082 S - 0.15 FB - 0.036S*FB,$$

where Y is earnings, S is years of schooling, FB is a dummy variable equal to 1 if the individual is foreign-born, and S*FB is the interaction of S and FB.

What is the implied rate of return on schooling for native-born (U.S.-born) individuals? For foreign-born individuals? What assumptions underlie your answer, and for what reasons might these estimated rates of return overestimate or underestimate the true rate of return to schooling for each group?