Answer Key

1. Approximately 25 million legal immigrants were admitted into the U.S. between 1966 and 2000 (and – since this excludes immigrants who entered the U.S. illegally – this figure understates the extent of immigration in the U.S. during this period). This influx of immigrants substantially altered the education composition of the U.S. workforce. In particular, the resulting percentage increase in high school dropouts in the workforce was much greater than the percentage increase of workers with at least a high school education (Borjas 2008). Provide a graphical representation of the labor market that illustrates the changes in the wage structure that would have likely resulted during the first half of the 20th century.

 $S\_{1}$

 $S\_{0}$

 $\frac{w\_{s}}{w\_{u}}$

*This decreases the relative supply of skilled labor, thus increasing the skill premium.*

 $W\_{1}^{\*}$

 $W\_{0}^{\*}$

 $D\_{0}$

 $L\_{1}^{\*}$

 $L\_{0}^{\*}$

 $\frac{L\_{s}}{L\_{u}}$

1. As a result of the rapid expansion of secondary education that some have called the "high school movement," the share of the workforce with at least a high school degree increased five-fold between 1890 and 1940 (e.g., see Goldin and Katz 2008). Provide a graphical representation of the labor market that illustrates the changes in the wage structure that would have likely resulted during the first half of the 20th century.

 $S\_{1}$

 $S\_{0}$

*This increases the relative supply of skilled labor, thus decreasing the skill premium.*

 $\frac{w\_{s}}{w\_{u}}$

 $W\_{0}^{\*}$

 $W\_{1}^{\*}$

 $D\_{0}$

 $L\_{0}^{\*}$

 $L\_{1}^{\*}$

 $\frac{L\_{s}}{L\_{u}}$

1. Over the past few decades, U.S. imports of goods produced by low-skilled workers have drastically increased, while exports of goods produced by high-skilled workers have increased. During this period, technology has changed in ways that enhanced the productivity of highly educated, skilled workers (e.g., the diffusion of the personal computer). Provide a graphical representation of the labor market that illustrates the changes in the wage structure that would have likely resulted during the last half of the 20th century.

 $S\_{0}$

 $\frac{w\_{s}}{w\_{u}}$

*This increases the relative demand for skilled labor, thus increasing the skill premium.*

 $W\_{1}^{\*}$

 $W\_{0}^{\*}$

 $D\_{1}$

 $D\_{0}$

 $L\_{1}^{\*}$

 $L\_{0}^{\*}$

 $\frac{L\_{s}}{L\_{u}}$

1. WWI and WWII substantially increased the demand for unskilled labor in the U.S. Provide a graphical representation of the labor market that illustrates the changes in the wage structure that would have likely resulted during the first half of the 20th century.

 $S\_{0}$

 $\frac{w\_{s}}{w\_{u}}$

*This decreases the relative demand for skilled labor, thus decreasing the skill premium.*

 $W\_{0}^{\*}$

 $W\_{1}^{\*}$

 $D\_{0}$

 $D\_{1}$

 $L\_{1}^{\*}$

 $L\_{0}^{\*}$

 $\frac{L\_{s}}{L\_{u}}$

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1. Based on your answers to (1)-(4), do you think that wage inequality increased throughout the 20th century, decreased throughout the century, increased initially then decreased in the latter part of the century, or decreased initially then increased in the latter part of the century?

*During the first part of the century, the relative supply of skilled labor increased and the relative demand for skilled labor decreased. Both of these served to decrease the skill premium. In the latter part of the century, the relative supply of skilled labor decreased and the relative demand for skilled labor increased. Both of these served to decrease the skill premium. So, the skill premium decreased in the first part of the century and then increased in the latter part of the century.*