

Macro Theory B

PS 1: The McCall Model

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1 Mean preservings spread

In class we argued that for a mean preserving spread (of the specific sort) the worker will choose a higher reservation wage. Explain briefly why this implies that the worker, if being presented with a choice, would prefer the distribution with more spread, i.e., that her value would be higher with the more dispersed distribution. (This is easy and does not require algebra).

2 Two offers per period

Exercise 6.2 in LS2

3 Allowing quits

Show how the value of a worker ($v(w)$) and his choices (*accept, reject*) change when the assumption of "no quits" is relaxed. Explain.

4 Choosing the number of offers

Exercise 6.5 in LS2 (for the baseline model where quits are no allowed).