

EE471 Class activity II

1. Suppose there are 100 workers in the economy in which all workers must choose to work a risky or a safe job. Worker 1's reservation price for accepting the risky job is \$1; worker 2's reservation price is \$2, and so on. Because of technological reasons, there are only 10 risky jobs.

(a) What is the equilibrium wage differential between safe and risky jobs? Which workers will be employed at the risky firm?

(b) Suppose now that an advertising campaign, paid for by the employers who offer risky jobs, stresses the excitement associated with “the thrill of injury,” and this campaign changes the attitudes of the work force toward being employed in a risky job. Worker 1 now has a reservation price of -\$10 (that is, she is willing to pay \$10 for the right to work in the risky job); worker 2's reservation price is -\$9, and so on. There are still only 10 risky jobs. **What is the new equilibrium wage differential?**

2. Suppose a drop in the compensating wage differential between risky jobs and safe jobs has been observed. Two explanations have been put forward:
 - Engineering advances have made it less costly to create a safe working environment.
 - The phenomenal success of a new action serial “Die On The Job!” has imbued millions of viewers with a romantic perception of work-related risks.

Using supply and demand diagrams show how each of the two developments can explain the drop in the compensating wage differential. Can information on the number of workers employed in the risky occupation help determine which explanation is more plausible?