

Problem Set 9

Pensions are good job attributes for which workers may be willing to pay through lower wages. Workers will differ in their tastes for pensions relative to wages. Some workers will value pensions (future income) highly while others will value wages (current income) highly. You may wish to read pp. 260-267 of Ehrenberg & Smith for hints on answering the questions below.

- a. Draw indifference curves representing a "pension lover" and a "wage lover". Put wages on the vertical axis and the dollar value of pensions on the horizontal axis.
- b. Suppose a firm is indifferent between paying a dollar in wages and a dollar in pensions. Then the isoprofit line for a firm will be a straight line. Draw an isoprofit line for a representative firm with wages on the vertical axis and pensions on the horizontal axis. Show the combinations of wage and pension selected by the "wage lover" and the "pension lover" by putting the isoprofit and indifference curves on the same graph.
- c. Suppose that the government proposes legislation that requires that all firms offer a pension program worth at least  $\$P$ . What happens to wages that firms will offer? Under what circumstances will this policy make workers better off or worse off? Explain.
- d. How might a firm alter its pension share of total compensation as part of a hiring strategy if it is attempting to attract prospects for a training program?