

Written Exam for the B.Sc. or M.Sc. in Economics, Winter 2013/2014

**Economics of Education**

Final Exam/ Elective Course

December 20<sup>th</sup>, 2013

(3-hour closed book exam)

**The exam has 2 pages in total (including cover page)**

This is the final exam for Economics of Education, Winter 2013. You have three hours to answer the following five questions. Draft your responses with an eye to clarity of exposition and structure as well as to showing your understanding of the concepts learned in class. Link the problem at hand to economic theory. You are free to make any reasonable assumptions that help you in answering, as long as you are specific and explicit.

Make sure to *pace yourself*. Also, you may choose to work on the questions in a *different order*: All questions can be answered independently (with the exception of question 5.)

### Human Capital Effects of the Crisis in Greece

The global recession has led to important increases in unemployment since 2008, particularly in Southern Europe. In the case of Greece, the OECD notes: “Since the onset of the global recession in 2008, the rise in unemployment among 25-64 year-olds has equally affected those with and without an upper secondary education, rising by more than 10 percentage points in both cases, up to more than 17% in 2011. [...] Young people were hardest hit by the impact of the economic crisis, whatever their level of qualification. Among young adults (25-34 year-olds), the unemployment rate between 2008 and 2011 increased by more than 13 percentage points to reach 23% among those with an upper secondary or post-secondary non-tertiary education, and more than 26% among those with tertiary qualifications.”<sup>1</sup> Among workers younger than 25, the unemployment rate increased from 22.1% in 2008 to 55.3% in 2012.<sup>2</sup>

- (1) If many workers are currently laid off, what can economic theory say about their human capital and wage in the future? How will their productivity with another employer be affected by losing their current match with a firm? How might employers be affected?
- (2) What does this strong increase in unemployment imply for the private demand for education? High unemployment implies that the opportunity cost of schooling is low. Are there other factors determining demand? You may want to distinguish between different age groups or schooling levels (primary school, secondary post-compulsory education, university education; older versus younger workers).
- (3) Imagine the crisis led to a strong increase in university attendance and graduation rates. How would wages of the newly educated workers develop, relative to previous cohorts? Address the wage premium of educated versus less educated workers. Find *at least two approaches* to answer.
- (4) Next, think about the human capital production that occurs not only in schools but within families throughout childhood. Even though compulsory schooling will not be altered, is there reason to believe that human capital accumulation might be affected by the crisis?
- (5) Now turn your attention to the long-run consequences of the crisis, and the effects of the educational and human capital responses you described in the previous parts. How do you think will the Greek economy and society be affected by changes in human capital accumulation?

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<sup>1</sup>Source: OECD Education at a Glance, 2012, Country Note Greece.

<sup>2</sup>eurostat table: Unemployment rate by sex and age groups - annual average, Last update: 31-10-2013, found at [http://epp.eurostat.ec.europa.eu/portal/page/portal/employment\\_unemployment\\_lfs/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database).