

UNIVERSITY OF TORONTO
Faculty of Arts and Science
DECEMBER 2002 EXAMINATIONS
ECO 332F
Instructor: Aloysius Siow
Duration - 2 hours

ALL AIDS ALLOWED (OPEN BOOK)

Name:-----

Student ID:-----

Answer all questions.
Each question is worth 10 point.

1. Consider the model in Section 5.3 with heterogeneous individuals and transferable utility. Let the cost of divorce and widowhood, β , be set to zero. Instead of all young individuals being alike and of low skill L , let $p < \frac{1}{2}$ fraction of young men and young women be high skilled, H . The rest will be low skilled. The skill of an old individual is the same as his or her skill when young. The gains from marriage is the same as in section 5.3. Individuals may divorce without cost. The skill of a woman does not affect her marital output.

- (a) When do high skilled men marry? When do low skilled men marry?
- (b) What is the equilibrium level of R , the lifetime utility of young women in the marriage market?

2. (a) Explain why we are unlikely to observe a virilocal society in which parents give small dowries and large bequests to their daughters.
- (b) Provide an explanation for why monogamous traditional (non-mechanized) agricultural societies are virilocal. Why don't we see the alternative norm where married sons leave their parents to live with their in-laws?

3. (a) Advocates for easy access to birth control technology and legal abortions argue that easier access will allow women to have children when they are psychologically and socioeconomically ready to have children. What is the evidence for this argument?

(b) Other observers argue that easier access to these technologies lowers the bargaining power of women in marriage. What is the evidence for this argument?

4. Let $f(\theta)$ be the uniform distribution where θ is distributed between 0 and 1. Then

$$\begin{aligned}f(\theta) &= 1 \\F(X) &= \int_0^X 1d\theta = X \\E(\theta|\theta > X) &= \frac{1}{1-X} \int_X^1 \theta d\theta = \frac{1+X}{2} \\E\theta &= \frac{1}{2}\end{aligned}$$

Consider a society where n young men and n young women enter the marriage market each period. Each adult live for two periods. Women are only interested in marriage when they are young. So they will not enter the marriage market when they are old. When an eligible (young or old) man and a young woman meets, they draw a match value θ from the uniform distribution. If they agree to marry, each spouse's lifetime utility is θ . There is no divorce. Both parties must agree in order to marry. If either of them do not agree to marry, there is no marriage. If a young man refuses to marry, he can return to the marriage market in the next period. The payoff to being single for a period is zero. There is random matching in the marriage market. All young men and young women will enter the marriage market. Eligible old men (men who did not marry when they were young) will also enter the marriage market. Let the probability that an eligible man will meet a woman be q . The probability that a woman will meet a man is one.

(a) Given q , what is the reservation match value for a young woman? What is the reservation match value for an eligible old man who meets a young woman? What is the reservation match value for a young man who meets a young woman?

(b) Solve for the equilibrium value of q .

(c) From a social perspective, is this marriage market efficient? Explain.

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