This exam is about estimating the effect of overtime rules on labor market behavior. Presently, overtime rules specify that, if a worker works more than 40 hours/week, he/she must be paid at 1.5 times his wage rate for any hours in excess of 40.

1) [30 points] Construct and precisely describe a model of labor force participation, hours, and net wages in an environment where the wage rate depends on acquired human capital and hours worked (maybe because of taxes, overtime, etc) and hours choice depends on wage and other observables. You can ignore any dynamic issues.

2) [40 points] Provide detail on how to estimate the parameters of the model you constructed in (1). Be careful to base your estimation strategy on the model you described including the introduction of deviations between data and model predictions.

3) [30 points] Use your model and estimates to simulate the effect of a change in hours subject to overtime from 40 hours/week to 35 hours/week. Be as precise as possible about the methodology associated with measuring the effect.