

Problem set 3 – ECON 4921, October 5, 2009

Consider a competitive industry consisting of two types of firms that differ in their productivity. Firms are either organized as i) traditional capitalist firms , ii) worker-owned firms. Assume that worker effort is equal across ownership structures.

- 1) Changing the ownership structure from capitalist firms to worker owned firms:
 - a. What is the impact on employment and labor income in different types of firms?
 - b. Are workers in the most productive firms better off if they have to fully compensate prior capitalist owners?
- 2) Changing the ownership structure from worker owned firms to capitalist firms:
 - a. Explain why a capitalist may take over a coop, fully compensate owners and still make pure profits.
 - b. If this is a realistic description of the world, what would happen to the share of cooperatives relative to traditional firms? Discuss.