

Page 391

## **Chapter 8 Pay Structure Decisions**

## **True/False Questions**

11-1. Job-structure decisions are concerned with individual pay equity.
Ans: F Difficulty: M Page 389 LO1
11-2. Pay-level decisions have their primary impact on attraction and retention of employees.
Ans: T Difficulty: E Page 389 LO1
11-3. Equity theory suggests that people often evaluate their situations by comparing them with those of other people.
Ans: T Difficulty: M Page 389 LO1
11-4. Labor-market competition places a lower bound on pay levels.
Ans: T Difficulty: F

LO3

11-5. The two major components that determine an organization's labor costs are average cost per employee and the staffing level.

Ans: T Difficulty: E Page 390 LO3

11-6. Essentially, labor-market competition is the amount an organization must pay to compete against other companies that hire similar types of employees.

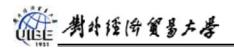
Ans: T Difficulty: M Page 391 LO3

11-7. Product-market comparisons that focus on labor costs deserve greater weight when labor costs represent a small share of total costs.

Ans: F Difficulty: M Page 390 LO3

11-8. An organization should decide to give more relative weight to pay data gathered from its product-market competitors in setting pay when attracting qualified employees is difficult.

Ans: F Difficulty: M Page 391 LO3



11-9. It is usually valid to compare return-on investment ratios such as revenues/labor cost among organizations in different industries.

Ans: F Difficulty: M Page 392 LO3

11-10. Key or benchmark jobs are defined as jobs that are common to many organizations.

Ans: T Difficulty: E Page 392 LO2

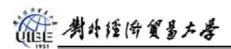
11-11. Among blue-collar jobs covered by collective bargaining contracts, there is usually a single--rate of pay for all employees who do the same lob.

Ans: T Difficulty: E Page 393 LO2

11-12. A market pay policy line can be developed using job-evaluation data and market pay policy data based on an organization's key jobs.

Ans: T Difficulty: M Page 396 LO2

11-13. Conceptually, a job structure can be defined as the relative worth of various jobs in the organization.



Ans: T Difficulty: E Page 388 LO2

11-14. The most common form of job-evaluation system used by organizations relies on single evaluators rating jobs.

Ans: F Difficulty: E Page 394 LO2

11-15. Experience, education, and complexity are all examples of compensable factors.

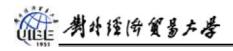
Ans: T Difficulty: E Page 394 LO2

11-16. Job-evaluation procedures are used for making external equity comparisons.

Ans: F Difficulty: E Page 394 LO2

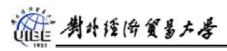
11-17. Pay ranges are typically larger at lower job levels than at higher job levels in most job-based pay systems.

Ans: F Difficulty: E Page 396 LO2



Ans: F

11-18. A compa-ratio equivalent to 1 suggests that actual pay is consistent with the pay policy.
Ans: T Difficulty: M Page 399 LO2
11-19. Broadband pay programs can lead to weaker budgeting control and rising labor costs.
Ans: T Difficulty: M Page 405 LO2
11-20. Skill-based pay systems fit well with the needs of hi-tech learning organizations.
Ans: T Difficulty: M Page 406 LO2
11-21. The use of "banding in organizations may mean fewer promotional opportunities for employees.
Ans: T Difficulty: E Page 405 LO2
11-22. Relative labor costs among the United States, Western European countries, and Japan have been stable over the past decade.



Difficulty: E Page 407 LO2

11-23. Comparable worth (or pay equity) depends on job evaluation methods to measure the worth of various jobs.

Ans: T Difficulty: M Page 411 LO8

11-24. Comparable worth legislation applies to all U.S. corporations.

Ans: F Difficulty: M Page 412 LO8

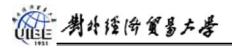
11-25. The Fair Labor Standards Act requires that employees be paid one and a half times their hourly rate after eight hours of work on a daily basis.

Ans: F Difficulty: M Page 413 LO8

## **Multiple Choice Questions**

11-26. Pay is a powerful organizational tool for influencing all of the following except a. employee attitudes and behaviors.

b. attraction of applicants.



- c. organizational costs.
- d. the organization's business strategy.

Ans: d

Difficulty: M Page 388 LO1

- 11-27. Pay structure decisions do not pertain to which of the following areas of compensation?
- a. Pay level
- b. Job structure
- c. Individual pay
- d. Job evaluation

Ans: c

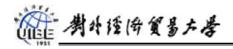
Difficulty: M Page 388 LO1

- 11-28. Consider the same two jobs in two different organizations. In Organization One, jobs A and B are paid an annual average compensation of \$30,000 and \$50,000 respectively. In Organization Two, the pay rates are \$25,000 and \$55,000 respectively. Which of the following is true?
- a. Organizations One and Two have the same pay level.
- b. Organizations One and Two have the same job structures.
- c. Organizations One and Two have the same individual pay rates.
- d. Organizations One and Two use incentive pay systems.

Ans: a

Difficulty: M Page 388 LO1

- 11-29. Which of the following is *not* associated with job structure decisions?
- a. External comparisons are made.
- b. Job evaluation is the main administrative tool.
- c. Referents are found in the same organization.
- d. The focus is on comparisons of jobs.



Ans: a

Difficulty: E

Page 389; Table 11.2

LO<sub>2</sub>

- 11-30. According to equity theory, perceived outcomes might include all of the following except
- a. pay.
- b. benefits.
- c. ability.
- d. recognition.

Ans: c

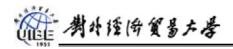
Difficulty: M Page 389 LO1

- 11-31. Which of the following is not generally associated with the *external* comparisons that employees make when evaluating their pay?
- a. The focus is on what employees in other organizations are paid for the same general Job.
- b. Such comparisons are likely to influence applicant decisions to accept job offers with other organizations.
- c. Such comparisons are likely to influence employee decisions to stay with an organization.
- d. Such comparisons influence employee willingness to accept promotions.

Ans: d Difficulty: E Page 389

LO<sub>1</sub>

- 11-32. Which of the following is *not* a true statement concerning product-market competition?
- a. Organizations must be able to sell their goods and services at a quantity and price that will bring a sufficient return on their investment in order to compete.
- b. Organizations compete on multiple dimensions (e.g., quality, service, price).
- c. An organization that has higher labor costs than its competition will have to charge higher average prices for products of similar quality.
- d. Product-market competition places a lower bound on labor costs and compensation.



Ans: d Difficulty: E Page 390 LO3

- 11-33. Which of the following is *not a* component of labor costs?
- a. Job structure
- b. Bonuses
- c. Health insurance
- d. Staffing level

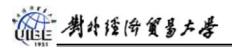
Ans: a

Difficulty: M Page 390 LO3

- 11-34. Which of the following is *not a* true statement concerning labor-market competition?
- a. Essentially, labor-market competition is the amount an organization must pay to compete against other companies that hire similar types of employees.
- b. Labor-market competitors are limited to those organizations that have similar products and that hire similar types of employees.
- c. Organizations that are noncompetitive will fail to attract sufficient numbers and quality of employees.
- d. Competitive organizations are able to retain enough employees of sufficient quality.

Ans: b Difficulty: E Page 391 LO3

- 11-35. Average pay in Company A is 10 percent higher than in Company B. Which of the following would suggest that Company A should reconsider its pay level policy?
- a. Average revenue per employee is 15 percent higher in Company A.
- b. Company A attracts sufficient numbers of good applicants.
- c. Voluntary turnover rates at Company A have been reduced to zero.
- d. Product quality is higher in Company A than in Company B.



Ans: c

Difficulty: H Page 391 LO3

11-36. Which of the following theories describes the conditions under which the benefits of higher pay outweigh the higher costs?

- a. Equity theory
- b. Expectancy theory
- c. Agency theory
- d. Efficiency wage theory

Ans: d

Difficulty: M Page 391 LO3

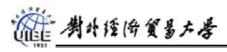
- 11-37. According to efficiency wage theory, being a higher-pay employer is more beneficial when organizations
- a. can easily monitor employee performance.
- b. are centralized.
- c. require highly skilled employees.
- d. have specialized work structures.

Ans: c

Difficulty: M Page 391 LO3

- 11-38. When using pay surveys to set the pay level, all of the following are important to do except:
- a. include all jobs in an organization in the survey.
- b. include both labor-market and product-market competitors.
- c. decide how many surveys to use.
- d. decide how to weight and combine pay data.

Ans: a



Difficulty: E Page 392 LO3

- 11-39. Company A is a petroleum company and Company B is a consulting firm. How would you expect the ratio of revenues-to-labor costs to compare?
- a. Company A's ratio should be higher.
- b. Company B's ratio should be higher.
- c. It is likely that the ratios will be the same in both companies.
- d. It is not possible to predict given the information presented.

Ans: d

Difficulty: M

Page 392

LO<sub>2</sub>

- 11-40. Which of the following comparisons is *not* important when deciding how to combine and weight pay survey data from product-market competitors?
- a. The ratio of labor costs to total costs
- b. The elasticity of product demand
- c. The costs of recruiting replacements
- d. The elasticity of the supply of labor

Ans: c

Difficulty: H Page 392

LO<sub>2</sub>

- 11-41. Which of the following statements are true regarding international labor comparisons?
- a. Japan has higher productivity than both U.S. and Western Europe.
- b. The U.S. has higher labor costs than Western Europe.
- c. The U.S. has higher productivity than Western Europe but lower than Japan.
- d. The U.S. has lower unit labor costs than both Japan and Western Europe.

Ans: d

Difficulty: H

Page 407

LO<sub>6</sub>

- 11-42. Key jobs (or benchmark jobs) have all of the following characteristics except
- a. relatively stable content.
- b. they are common to many organizations.
- c. they are jobs on which it is possible to obtain market pay survey data.
- d. they must have many incumbents within the organization.

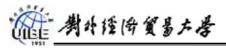
Ans: d Difficulty: E Page 393 LO2

- 11-43. In developing a job-evaluation system, compensable factors
- a. are statistically derived.
- b. reflect the characteristics of jobs that an organization values.
- c. usually vary significantly across job-evaluation systems.
- d. should describe every aspect of the jobs being evaluated.

Ans: b Difficulty: M Page 394 LO2

- 11-44. The job-evaluation process includes all of the following except
- a. compensable factors.
- b. a weighting scheme.
- c. pay ranges.
- d. scores.

Ans: c Difficulty: E Page 394 LO2



- 11-45. The job-evaluation process is characterized by all of the following except
- a. it typically includes input from a number of people.
- b. it encompasses many methods for producing job-evaluation scores.
- c. it typically uses an approach called the point factor system.
- d. it is an objective method for pricing jobs.

Ans: d Difficulty: M Page 394

LO<sub>2</sub>

- 11-46. Job-evaluation system weighting schemes can be described by all of the following except
- a. weighting schemes reflect how job-evaluation scores should be combined to produce pay rates.
- b. weighting schemes are applied to account for the fact that compensable factors may differ in importance to the organization.
- c. weights can be chosen based on expert judgments.
- d. weights can be empirically derived.

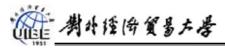
Ans: a Difficulty: E Page 394 LO2

- 11-47. The process of determining the relative worth of jobs in the same organization is called
- a. pay level.
- b. performance evaluation.
- c. job evaluation.
- d. comparable worth.

Ans: c

Difficulty: M Page 394 LO2

- 11-48. Which pay-setting approach places the highest relative emphasis on external comparisons?
- a. Basing pay on market surveys that cover as many key jobs as possible
- b. Deriving pay rates for all jobs based on the number of job evaluation points



- c. Grouping jobs into a smaller number of pay grades
- d. Basing pay on skills employees have acquired
- e. Comparable worth

Ans: a

Difficulty: M Page 395 LO2

- 11-49. Which of the following types of data are not used when developing a pay structure?
- a. Job-evaluation scores
- b. Market-survey data
- c. Employee seniority data
- d. Pay policy lines

Ans: c

Difficulty: E Page 464-65

LO<sub>2</sub>

- 11-50. A market pay policy line
- a. is developed using non-key jobs.
- b. can be generated using a statistical procedure called regression analysis.
- c. requires market pay rate data on all jobs in the organization to develop.
- d. is always expressed as a linear relationship between job-evaluation points and pay rates.

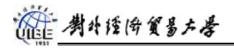
Ans: b

Difficulty: M

Page 396

LO2

- 11-51. A disadvantage of using the pay-setting approach, which groups jobs into a smaller number of pay grades, is that
- a. it increases administrative burden.
- b. it permits less flexibility in moving employees from job to job.
- c. it reduces labor-market competition for all jobs.
- d. it increases costs of surveying the market.



Ans: c

Difficulty: M Page 397 LO2

- 11-52. Pay grades are desirable pay structures when
- a. there are only a few jobs in the organization.
- b. there are broad distinctions between jobs within a pay grade.
- c. there is concern about overpaying some jobs.
- d. an organization desires greater flexibility in moving employees.

Ans: d

Difficulty: M Page 397 LO2

- 11-53. Which of the following is false concerning jobs assigned to the same pay grade?
- a. All have the same midpoint, minimum, and maximum rates of pay.
- b. All are considered of equal value to the organization.
- c. All would receive the same market pay rate under alternative pay-setting approaches.
- d. Movement from job to job would not constitute an organization promotion or demotion.

Ans: c

Difficulty: M Page 397 LO2

- 11-54. Pay rate range spread
- a. is usually larger at higher grade levels.
- b. is the distance between midpoint and the maximum pay rates in each grade.
- c. is a measure of the range of pay rates paid across an entire organization.
- d. is usually largest for blue-collar jobs iris unionized settings.

Ans: a

Difficulty: E Page 397 LO<sub>2</sub>

- 11-55. Which of the following is not a reason for emphasizing external pay comparisons over internal comparisons in jobs with similar numbers of job-evaluation points?
- a. The organization wants to rotate people through different positions with equivalent job-evaluation scores.
- b. Organizations are finding it increasingly difficult to ignore market-competitive pressures.
- c. Some jobs are more central in dealing with critical environmental challenges.
- d. The supply of labor for some positions is smaller than for others.

Ans: a

Difficulty: M Page 398 LO2

- 11-56. The compa-ratio
- a. measures the correspondence between actual and intended pay.
- b. is defined as actual average pay for grade divided by the minimum pay for grade.
- c. can range from 0 to 100 percent.
- d. uses data from market pay surveys.

Ans: a

Difficulty: E Page 399

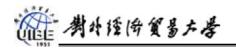
LO<sub>2</sub>

- 11-57. Compensation management can probably be most improved in organizations by
- a. improving the technical merit of compensation decisions.
- b. developing better theoretical bases for pay decisions.
- c. increasing employee participation in compensation decision making.
- d. offering better justification for the selection of compensation programs.

Ans: c

Difficulty: M Page 401

LO4



- 11-58. Recent research has shown that better communication of the reasons for organization pay-cuts had
- a. no effect on employees' attitudes and behaviors.
- b. a negative effect on employee retention-rates.
- c. a large effect on reducing employee theft rates.
- d. no effect on employees' perceived equity of pay.

Ans: c

Difficulty: M Page 401

LO<sub>4</sub>

- 11-59. Research on the effects of two-tier wage plans has found that
- a. lower-paid employees were less satisfied on average.
- b. those in the lower tier used lower comparison standards than those in the higher tier.
- c. lower-paid employees compared their pay to those in the higher tier.
- d. higher-paid employees were more satisfied with their compensation.

Ans: b

Difficulty: M Page 402 LO5

- 11-60. Which of the following is not a recognized limitation of a job-based pay structure?
- a. It encourages a bureaucratic orientation due to its reliance on inflexible job descriptions.
- b. It reinforces top-down decision making and information flow.
- c. It may not reward desired behaviors, particularly in a rapidly changing environment.
- d. It is difficult to explain to employees.

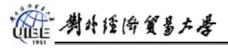
Ans: d

Difficulty: E

Page 404

LO5

11-61. A pay band



- a. is a combination of pay grades that reduces the number of levels in a pay structure.
- b. refers to the distance between the minimum and maximum pay rate in a pay grade.
- c. is the salary range attached to white-collar jobs.
- d. reduces flexibility in assigning merit increases.

Ans: a Difficulty: E Page 404 LO5

- 11-62. Skill-based pay systems generally are not appropriate for organizations that
- a. desire worker flexibility.
- b. determine pay rates by market-based rates.
- c. emphasize decentralization of decision making.
- d. desire a climate of learning.

Ans: b Difficulty: M Page 406 LO5

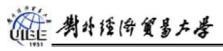
- 11-63. Based solely on a cost approach, where would it make sense to try to shift many types of production in the global labor market?
- a. The United States
- b. Germany
- c. Japan
- d. Mexico

Ans: d

Difficulty: E Page 407

LO<sub>6</sub>

- 11-64. Top executive pay in the U.S.
- a. is largely related to company performance
- b. is justified because of the high pay of many athletes/entertainers
- c. is the highest in the world



d. all of the above

Ans: c

Difficulty: M Page 410-11

LO7

- 11-65. In 1999, among year-round, full-time workers, the percentage of female-to-male median raw earnings was about
- a. 65 percent.
- b. 75 percent.
- c. 85 percent.
- d. 90 percent.

Ans: b

Difficulty: M Page 411 LO8

- 11-66. In 1999, among year-round, full-time workers, the percentage of black-to-white median raw earnings was about
- a. 55 percent.
- b. 65 percent.
- c. 75 percent.
- d. 85 percent.

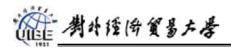
Ans: c

Difficulty: M

Page 411

LO8

- 11-67. The "crowding" hypothesis as related to aspects of pay determination responsible for differences between male and female pay argues that
- a. adjusting for differences in pay related to education, labor-market experience, and occupation doesn't explain all earning differences.
- b. market surveys perpetuate earnings differences based on sex.
- c. women were historically restricted to entering a small number of occupations.



d. as the labor force participation rates of women has risen, the female-to-male earnings ratio has increased.

Ans: c

Difficulty: M Page 411 LO8

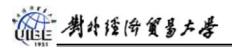
- 11-68. The U.S. law that prohibits sex- or race-based differences in employment outcomes such as pay, unless justified by business necessity, is
- a. the Equal Pay Act of 1963
- b. Title VII of the Civil Rights Act of 1964.
- c. the Fair Labor Standards Act.
- d. Executive Order 11246.

Ans: b Difficulty: E Page 410 LO8

- 11-69. Comparable worth is a public policy
- a. that advocates remedies for any undervaluation of women's and minorities' jobs.
- b. whose idea is to obtain equal pay for jobs of equal content.
- c. that has been consistently upheld in recent court rulings.
- d. that advocates the use of job evaluation to replace the market in pay-setting.

Ans: d Difficulty: H Page 411 LO8

- 11-70. By the early 1990s, how many states had begun or completed comparable worth adjustments to public sector employee pay?
- a. only 15
- b. about 1/2
- c. about 40
- d. almost all



Ans: b

Difficulty: M

Page 412

LO8

- 11-71. The minimum wage in 1991 allowed under the Fair Labor Standards Act (FLSA) now is
- a. \$3.50
- b. \$4.00.
- c. \$4.85.
- d. \$5.15.

Ans: d

Difficulty: M

Page 413

LO8

- 11-72. The FLSA was amended in 1990 to permit a subminimum training wage
- a. equal to 60 percent of the minimum wage.
- b. equal to 85 percent of the minimum wage.
- c. that employers are permitted to pay most employees under the age of 23.
- d. that can only be paid for a period of up to 60 days.

Ans: b

Difficulty: M

Page 413

LO8

- 11-73. The FLSA requirement that employees be paid overtime includes the provision that
- a. overtime rates of two times employees' hourly rate worked beyond 40 hours in a week be paid.
- b. the hourly rate is based solely on the base wage.
- c. professional occupations are covered under the law.
- d. overtime must be paid for work done beyond 40 hours per week regardless of whether the work is done at the workplace.

Ans: d

Difficulty: E

Page 413 LO8

- 11-74. Which piece of U.S. legislation, along with the 1931 Davis-Bacon Act, legislated that federal contractors pay employees no less than the prevailing wage in the area?
- a. The FLSA
- b. The Walsh-Healy Act
- c. The Equal Pay Act
- d. The Employment Standards Act

Ans: b

Difficulty: M Page 413 LO8

- 11-75. What percentage of U.S. employees are estimated to fall into the exempt category of the FLSA?
- a. 20 percent
- b. 40 percent
- c. 50 percent
- d. 60 percent

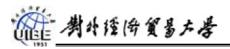
Ans: a

Difficulty: M Page 413 LO8

## **Essay Questions**

11-76. Why are pay policies often attached to particular jobs, rather than tailored to individual employees?

Ans: Pay policies are attached to particular jobs, rather than tailored to individual employees, to reduce the number of human resource management decisions that must be made as the number of employees in an organization increases; to reduce the burden of compensation administration; and to make



compensation more equitable in an organization.

Difficulty: E Page 388 LO1

11-77. Discuss equity theory and its importance to compensation decision making.

Ans: -Equity theory suggests that people evaluate the fairness of their situations by comparing them to those of other people. A person (P) compares his or her own ratio of perceived compensation to perceived inputs (e.g., ability, effort, experience, education) to the ratio of a comparison other (O). Op/Ip c, >, or = 00/Io

- -According to the theory, if the person's ratio (Op/Ip) is smaller than the referent's ratio (Oo/Io), underreward inequity will result. If the person's ratio is larger, overreward inequity results, although research suggests that this type of inequity is less likely to occur. If the ratios are equal, then there is no inequity perceived.
- -If inequity is perceived, then change is expected in the person's attitudes and behaviors (e.g., reducing inputs, increasing outcomes, or leaving the situation).
- -The implications for compensation management are that employees evaluate their pay to an important extent by comparing it to what others get paid, and those comparisons can affect employee attitudes and behaviors. If employees don't perceive that they are paid well compared to others, then compensation programs may not achieve their objectives. Management's beliefs about employee compensation may not necessarily match employees' beliefs.

Difficulty: M Page 389-90 LO1

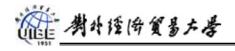
11-78. When should a compensation manager be more concerned about external equity than internal equity? Why?

Ans: External equity is most important for an organization that must be concerned with attracting and retaining a labor force because higher pay levels are likely to influence applicant decisions to accept job offers as well as employees' decisions regarding whether to stay with an organization or take a job elsewhere.

If an organization must compete for sales of its products or services, then it must be concerned about keeping its labor costs competitive. An organization that has higher labor costs than its product-market competitors will have to charge higher average prices for products or services of similar quality.

Difficulty: H Page 389-90

LO1



11-79. Describe the processes you would use to evaluate key and non-key jobs and to price them.

Ans: 1. Job-evaluation processes evaluate the jobs using the defined compensable factors, factor weights, and the job description. Assign both key jobs and non-key jobs a job evaluation score based on the sum of the weighted factor scores.

- 2. Pricing the jobs.
- 3. Decide whether to establish a single rate for each job or whether a rate range will be used. Determine whether to price jobs individually or to group similarly evaluated jobs into pay grades. For key jobs, both pay survey and job-evaluation data are available. Develop a market policy line by regressing the market pay rate data for each key job on the corresponding job-evaluation scores. For non-key jobs, plug the number of job-evaluation points into the market policy line equation estimated from the key jobs and obtain the predicted pay rate for each non-key job.

Difficulty: M Page 393-94

LO<sub>2</sub>

11-80. What are some potential limitations of using a job-based pay structure?

Ans: 1. A job-based pay structure may encourage a bureaucratic orientation and lack of flexibility through emphasis on specific tasks and activities for which an incumbent is responsible, and by implication, for which the incumbent is not responsible.

- 2. The structure's hierarchical nature reinforces top-down decision making and information flow as well as status differentials.
- 3. Changes to job descriptions involve significant investments of time and money, therefore becoming a barrier to change.
- 4. The structure may not reward desired behaviors, particularly in a rapidly changing environment.
- 5. The structure discourages lateral employee movement and encourages promotion-seeking behavior. Difficulty: M

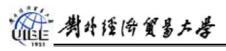
Page 404

LO<sub>2</sub>

11-81. What is skill-based pay, and when is it most appropriately used?

Ans: Skill-based pay (SBP) differs from job-based pay in that employees are paid for the skills they have versus being paid for the fob they are doing at a particular point in time.

SBP is desirable in situations where employees need to learn more skills and become more flexible in



the jobs they perform, particularly in environments where the technology is changing. SBP has the following potential advantages: increased worker flexibility, decentralization of decision making, opportunities for leaner staffing levels, contributing to a climate of learning and adaptability, and better utilization of employees' know-how and ideas.

Difficulty: M Page 406 LO5

11-82. What labor-related factors should be considered when deciding where to locate production from an international perspective?

Ans: -Average hourly labor costs. However, changes in currency exchange rates have a very important influence on such comparisons, and these rates often fluctuate significantly from year to year, making relative labor costs very unstable over time. -The quality and productivity of national labor forces can vary dramatically. As a result, certain types of skilled labor are often not available in low-labor-cost countries.

Difficulty: E Page 407-09

LO<sub>6</sub>

11-83. Why has there been widespread criticism of executive pay m recent years?

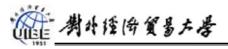
Ans: Looking beyond average pay levels, some executives are very highly paid (e.g., in 1990, \$99.6 million for the chief executive of Time Warner). The very highly paid receive a great deal of attention in the media. U.S. executives are the highest paid in the world. The salary differential between top-executive pay and that of an average manufacturing worker is the largest in the United States and has created a "trust gap." This raises issues of perceived fairness during difficult economic periods.

Difficulty: E Page 409-10

LO7

11-84. What does the existing evidence suggest regarding equality of treatment in pay determination for women and racial minorities in the United States in recent years?

Ans: —Raw earnings ratios (i.e., without adjustments for differences in education, labor-market experience, and occupation) show that in 1988, among year-round, full-time workers, the percentage of female-to-male average earnings was .65, and the percentage of black-to-white earnings was .75



—Adjusting for differences reduces earnings differentials based on race and sex, but significant differences remain.

Difficulty: M Page 411 LO8

11-85. What argument has been used to support the contention that a comparable worth policy would not have much impact on the relative earnings of women in the private sector?

Ans: Proponents of the contention argue that the limitation of the comparable worth policy is that it targets single employers, thus ignoring the fact that men and women tend to work for different employers. To the extent that segregation by employer contributes to pay differences between men and women, comparable worth would not be effective.

Difficulty: M Page 411 LO8