

Chapter 8

Homework Assignment

1. For each of the following changes in the labor market in the fictitious country "Alpha", identify which curve (supply or demand) is affected and how (increase or decrease).
 - a. Real GDP increases
 - b. The mandatory retirement age is decreased
 - c. Social Security benefits are made more generous
 - d. An increase in workers' marginal productivity

2. Is each of the following individuals more likely to be structurally unemployed (S), frictionally unemployed (F), or cyclically unemployed (C).
 - a. An assembly line worker replaced by a machine.
 - b. A construction worker laid off during a recession.
 - c. A bank teller replaced by a computer.
 - d. A computer technician who moves to find a new job in California.
 - e. A textile worker laid off due to decreased demand.

2. Using the supply and demand for labor are given by the equations below, find each of the following:
 - a. The equilibrium wage and employment in the market.
 - b. The effect of a minimum wage of \$10 per day.
 - c. The effect of a minimum wage of \$30 per day.

$$N^d = 300 - 2w \qquad N^s = 260 + 2w$$

Where N^d is the number of workers demanded, N^s is the number of workers supplied, and w is the real wage.

Key

- 1.a. increase demand
 - a. decrease supply
 - b. decrease supply
 - c. increase demand

- 2.a. S
- b. C

- c. S
- d. F
- e. C

3.a. equilibrium wage = \$10, employment = 280

b. The minimum wage is not above the equilibrium so it has no effect.

c. The minimum wage increases N^s to 320 and decreases N^d to 240, resulting in a surplus of 80 workers.