

YOUR NAME: _____

Section I (30 points) Questions 1-10 (3 points each)

Section II (40 points) Questions 11-14 (10 points each)

Section III (30 points) Questions 15

Section I. Define or explain the following terms (3 points each)

1. adjustment costs=

2. definition of the labor force participation rate =

3. positive vs. normative economics=

4. elasticity of substitution (between factor inputs) =

5. non-homothetic production function =

6. capital skill complementarity hypothesis=

7. isoquant =

8. quasi-fixed labor cost=

9. Laffer Curve =

10. cross elasticity of factor demand =

Section II. Assorted Questions

11. Indicate whether the following statement is True, False, or Uncertain. Explain why. You are graded only for your explanation: “The comparative advantage model of household production given by Borjas addresses the same issues as the household commodity model (the model in the notes where “ Z_1, Z_2 ” are produced with goods and time). Both address the question of male labor supply as male wages rise.”

12. Indicate whether the following statement is True, False, or Uncertain. Explain why. You are graded only for your explanation: “An increase in the wage rate or in pension benefits will increase retirees’ potential income, inducing an earlier retirement age.”

13. Indicate whether the following statement is True, False, or Uncertain. Explain why. You are graded only for your explanation: “In the “leisure-market work-home production” model of time allocation (in the notes, the model using L, H, and N notation for different uses of time), an exogeneous increase in home productivity (you now get more goods for each and every hour you spend in home production) will cause time spent in home production to increase.”

14. Briefly describe how labor supply is estimated empirically (chapter 2 in Borjas) and some of the issues associated with labor supply estimates.

15. a) Derive Hicks-Marshall rules of derived demand as thoroughly as you can. b) Give applications for two of the rules.