

YOUR NAME: _____

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

Section II (50 points) Questions 11-15 (10 points each)

Section III (20 points) Questions 16

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

1. t-statistic =

2. definition of the labor force participation rate =

3. Cob-web model of labor market=

4. dead weight loss =

5. homothetic production function =

6. intertemporal substitution hypothesis =

7. isoquant =

8. quasi-fixed labor cost=

9. Euler's theorem about homogeneous production functions =

10. firm specific vs. general human capital =

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 implies that the spouse with the lower wage or with the greater marginal product in the household sector is the spouse likely to specialize in household production.”

12. Indicate whether the following statement is True, False, or Uncertain. Explain why. You are graded only for your explanation: “Given a labor market in which the demand curve slopes downward and the supply curve slopes upward, a change in equilibrium where the wage rate dropped and the employment level went up must indicate a change in the quantity of labor supplied.”

13. Show explicitly what happens to the reservation wage as non-wage income increases, using a simple goods-leisure diagram. What are you assuming, if anything, about the income elasticity of leisure?

14. State two of the four Marshall's rules of derived demand, and give an application of those rules as they apply to unions who want to increase wages with the minimum loss of employment (i.e., where should they organize?).

15. Kim Jones is able to select her weekly work hours. When a new bridge opened up, it cut one hour off Kim's commute to work, but Kim did not change her weekly hours of work (the bridge cut one hour off Kim's commute but had little impact on her co-workers). Does Kim's labor supply curve slope upward, bend backward, or is it vertical? Why?

16. BIG QUESTION: Consider how things change for the following economy in which there is one competitive labor market, in which every is covered by any labor laws.
a) Initially there are no taxes or other labor laws (no social insurance of any kind), with the following labor demand and labor supply curves (W =wage rate and N =number employed in thousands):

$$\text{demand: } W = 30 - .1 N$$

$$\text{supply: } W = 0 + .02 N$$

b) Now suppose that a minimum wage of \$8 is imposed. What is the new "equilibrium" (the new wage and employment level)? Does everyone have a job that wants one? If you don't need any additional information, how many are unemployed? If you need more information about the economy to calculate the number of unemployed, make it up (state what it is that you've made up), and then calculate the number unemployed.

c) Suppose the "I feel your pain" institute is now able, with the minimum wage, to push through congress an employer tax of \$1/hour to help provide benefits for the unemployed. What is the equilibrium wage (with and without the tax), the number of employed, and the unemployment benefit per unemployed worker (where the current tax revenue is unevenly distributed over the current—after the implementation of the min. wage and tax—unemployed)?

