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Econ 321

HW#2 *(Please type all answers)*

I.   Suppose there are equal quantities of two kinds of labor: skilled and unskilled. Demand for skilled labor is much higher: the market wage of skilled workers is $20, the market wage of unskilled is $3. Diagram the effect of a $7 minimum wage on *both* markets.

II.   In France, unemployment is higher but real wages are lower than in the U.S. Draw Aggregate Labor Demand and Aggregate Labor Supply for both countries showing how this is possible.

III. Suppose that the nominal wage in 2000 is $6.00/hour; in 2005 it rises to $7.25/hour. Fill in the following table for the *real* minimum wage (in 2000 $'s) for 2000-2007. Then graph the real minimum wage over time.

Year	Inflation	Real Minimum Wage
2000	3%	$6.00
2001	4%	
2002	5%	
2003	10%	
2004	3%	
2005	0%	
2006	3%	
2007	5%	

IV.   Diagram the effect of (a) Abolishing the minimum wage **and** (b) Raising unemployment benefits at the same time.

V.   Economists have occasionally argued that unionized workers are happier and therefore more productive. Assuming this claim is true, draw diagrams to illustrate the implications for the product and the labor market.

VI.   The Family Leave Act, passed in Clinton's first term in office, requires employers to give workers three months unpaid leave to care for a new-born infant. What happens in the labor market if wages are permitted to change? What happens if the government makes it illegal to change wages in response to the legislation?

VII. Suppose that in 2012, workers earn a $30,000 salary plus $10,000 in health insurance benefits. The cost of health insurance always rises 10% per year in real terms. Assume (a) employers never cut *nominal* salaries, (b) employers always provide health insurance, and (c) labor demand does not rise. Complete the following table.

Year	0% Inflation				10% Inflation			
	Nominal Salary	Nominal Insurance Cost	Real Salary	Real Insurance Cost	Nominal Salary	Nominal Insurance Cost	Real Salary	Real Insurance Cost
2012	$30,000	$10,000	$30,000	$10,000	$30,000	$10,000	$30,000	$10,000
2013	$30,000	$11,000	$30,000	$11,000	$31,900	$12,100	$29,000	$11,000
2014								
2015								
2016								

(*Hint:* First calculate Real Insurance Cost, then Real Salary, then Nominal Insurance Cost, and finally Nominal Salary).

Does this mean that higher inflation is clearly worse for workers? Why or why not?

VIII. Suppose "yellow dog" contracts were legal. Draw two labor market diagrams: One for jobs with a "yellow dog" contract, one for jobs without.

IX. What are the long-run side effects of plant closing laws? (1 paragraph)

X. Find a discussion of 19th century U.S. labor markets in the history textbook of your choice. <u>Summarize</u> what the historian says. Which of the historian's claims would Caplan be likely to dispute? To accept? (1 paragraph)