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Econ 321

HW#1 (*Please type all answers*)

- I. Draw supply-and-demand diagrams for the market for wheat and the market for farm laborers, drawing the demand curve for wheat as highly **inelastic**. Then show what happens in both markets when the MPP of farm laborers decreases.
- II. Draw supply-and-demand diagrams for the market for DVD players and the market for DVD factory laborers, drawing the demand curve for DVD players as highly **elastic**. Then show what happens in both markets when the MPP of DVD factory laborers increases.
- III. Using separate supply-and-demand curves, show what happens in a single occupation if employers provide free coffee for workers, and:
 - A. Workers like coffee, but the caffeine makes them "hyper" and less able to do their job.
 - B. Workers actively dislike coffee, but it enhances their ability to keep working late at night.
- IV. Show what happens to *aggregate* labor demand and *aggregate* labor supply if:
 - A. A plague kills half of all workers?
 - B. The government increases subsidies to (non-productive) education.
 - C. The government repeals a law against secretly monitoring workers with video cameras.
 - D. A new vitamin raises workers' IQs.
 - E. The courts rule that unions are immune to prosecution for acts of vandalism committed during strikes.
 - F. Higher taxes on gasoline make commuting more expensive.
- V. Is it *possible* for workers in a free market labor to earn "subsistence wages"? Why or why not?
- VI. 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.
- VII. Diagram the effect of (a) Abolishing the minimum wage **and** (b) Raising unemployment benefits at the same time.
- VIII. 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?
- IX. Suppose "yellow dog" contracts were legal. Draw two labor market diagrams: One for jobs with a "yellow dog" contract, one for jobs without.

- X. Find a discussion of 19th century labor markets in the history textbook of your choice. Summarize what the historian says. Which of the historian's claims would Caplan be likely to dispute? To accept? (2 paragraphs)