

Assignment 3
Due: February 19, 2003

1. In his 1994 article, Paul Krugman argued that high unemployment in Europe and High inequality in the United States were both caused by a “skill-based technological change” that raised the productivity and relative wages of skilled workers. He argued that the shock to technology raised wage inequality in the United States where the welfare system is relatively ungenerous and raised the natural rate of unemployment in Europe where the welfare system is relatively generous. In this question, you will do follow up analysis of Krugman’s arguments.
 - a. Briefly explain how, according to Krugman, a skill based technological change can account both for rising inequality in US wages and a rising natural rate of unemployment in Europe. Do not simply restate the claim – explain it.
 - b. Find more recent data on European unemployment. Is the unemployment rate in Europe still relatively high?
 - c. Find more recent data on the inequality of US wages. How does inequality now compare with inequality that Krugman reported?
 - d. Does it appear that Krugman’s skill-based technological change is still at work? Why or why not?
2. Write a one page essay on: “The most important economic issue for the 2004 Presidential Campaign.” A full-marks essay must:
 - a. Cite at least one authoritative source.
 - b. Make reference to relevant course material.
 - c. Be well reasoned.
 - d. Be well written.
3. Mankiw, Chapter 6, Problem 5, p. 176-77.
4. Mankiw, Chapter 7, Problem 3, p. 206..
 - a. Provide an answer to parts a and b in writing. Show your derivations and explain your work carefully.
 - b. Build an excel program that shows how the economy evolves from an initial value of the capital labor ratio to the steady state capital labor ratio. Use the program to solve parts c and d. Provide a copy of the spread sheet and explain in writing how you computed each of the column values. Explain the output of the spread sheet in writing so that it is clear that you understand what is going on.