Chapter 2

1. What happens to the reservation wage if nonlabor income increases, and why?

2. What economic factors determine whether a person participates in the labor force?

3. How does a typical worker decide how many hours to allocate to the labor market?

4. What happens to hours of work when nonlabor income decreases?

5. What happens to hours of work when the wage rate falls? Decompose the change in hours of work into income and substitution effects.

6. What happens to the probability that a particular person works when the wage rises? Does such a wage increase generate an income effect?

7. Why do welfare programs create work disincentives?

8. Why does the earned income tax credit increase the labor force participation rate of targeted groups?

12. What is the added worker effect? What is the discourage worker effect?

14. Why did Malthus err in predicting that families would have more children as incomes increase?

Chapter 3

1. Why does a profit-maximizing firm hire workers up to the point where the wage equals the value of marginal product? Show that this condition is identical to the one that requires a profit-maximizing firm to produce the level of output where the price of the output equals the marginal cost of production.

2. Why is the short-run demand curve for labor downward sloping?

3. What mix of inputs should be used to produce a given level of output?

4. Suppose the firm is hiring labor and capital and that the ratio of marginal products of the two inputs equals the ratio of input prices. Does this imply that the firm is maximizing profits? Why or why not?

5. Suppose the wage increases. Show that in the long run the firm will hire fewer workers. Decompose the employment change into substitution and scale effects.

6. What factors determine the elasticity of the industry’s labor demand curve?
7. What is the capital-skill complementarity hypothesis?

8. Show how the minimum wage creates unemployment in a competitive market.

9. Discuss the impact of the minimum wage when there are two sectors in the economy: the covered sector (which is subject to the minimum wage) and the uncovered sector (which is not).

10. Summarize the evidence regarding the impact of the minimum wage on employment.

Chapter 4

1. What is the producer surplus? What is the worker surplus? Show that a competitive market equilibrium maximizes the gains from trade.

2. Discuss the implications of equilibrium for a competitive economy containing many regional markets when labor and firms are free to enter and exit the various markets. Why is the resulting allocation of labor efficient?

3. Show what happens to producer surplus, worker surplus, and the gains from trade as workers migrate from a low-wage to a high-wage region.

4. Describe the impact of a payroll tax on wages and employment in a competitive industry. Why is part of the tax shifted to workers? What is the deadweight loss of the payroll tax?

5. Why does the payroll tax have the same impact on wages and employment regardless of whether it is imposed on workers or on firms?

6. How do mandated benefits affect labor market outcomes? Why do these outcomes differ from those resulting from a payroll tax? What is the deadweight loss arising from mandated benefits?

7. Do immigrants reduce the wage of native workers? Do immigrants “take jobs away” from native workers?

8. What is the immigration surplus?

10. Describe the hiring decision of a perfectly discriminating monopsonist and of a non-discriminating monopsonist. In what sense do monopsonists “exploit” workers?

11. Show how the imposition of a minimum wage on a monopsony can increase both wages and employment.

12. Describe the hiring decision of a monopolist.