

Homework 3

Literature, Russian Literature



Homework 3 Question If marginal labor product (MPN) = $309 - 2N$ Labor supplied is $(NS) = 22 + 12w + 2T$. And the government passes a bill that requires the firms to pay a minimum wage greater than 7, and the working figure is then 7.

The amount of labor supplied = $\{22 + (12 \times 7) + (35 \times 7)\} = (22 + 84 + 245) = 351$

And Real Wage = $(35 \times 7) = 245$.

Question 2:

a) Unemployment rate is the total of the unemployed number of people at any one time divided by labor force of the same population identified. This therefore means that:

$(U/LF) 100 = (20/480)100 = 4.2\%$ or 0.04 of the population.

b) One month's fraction is $5/495 = 0.01$ while six months' fraction is $20/480 = 0.04$

c) Average duration is the differences in dates of Start and End {6 (July) - 1 (January)}, 5 months.

d) The unemployed fraction on a daily basis is $(25/475) = 0.05$

Question 3:

Based of the curves above, is true that an increase in demand for quantity A will lead to a decrease in quantity B. Hence, at no instance will the indifference curves cross.

Question 4:

a) With the negative slope $-m$, where $m > 0$, the current and future substitution stand for coordinates at any point in the slope. They share similar gradient, hence no affects on each other.

- b) In case a consumer has a preference for perfect substitutes to less, the preference satisfies the diminishing rate of substitution (Andrea, M., Whinstone, M., and Jerry, G., 2005).
- c) Optimal consumption bundle for a condition where gross interest rate $(1+r)$ is greater than marginal rate of substitution, there is an increase in consumption. When gross interest rate becomes less than the marginal rate of substitution, then there is a decline in consumption rate.
- d) It is impossible for the current and future consumptions to be perfect substitutes since elements involved in production also vary as time lapses.

Question 5:

a)

An employee would most likely take the option based on the argument similar amount would still be offered but he/she now gets it faster.

b) The shift is likely to increase saving and consumption this year while decreasing savings and consumption the following year as presented in the above diagram. There will be more money available to spend and save in the current year, while less money in the following year.

c) A refund on income taxes is not advised since the cost of living is always on the rise, calling for more spending by the consumers.

Question 6:

a) The consumer's lifetime wealth is a product of his net salary, less all tax deductions. If he gets paid all the salary for the sixty years period:

$$\begin{aligned} \text{His net wealth} &= \left\{ \left[\frac{(120+110)}{2} \right] - \left[\frac{(30+10)}{2} \right] \right\} 60 \\ &= \left\{ \frac{230}{2} - \frac{40}{2} \right\} 60 = (115-20)60 \\ &= 5700. \end{aligned}$$

- b) This means that a consumer will uphold a perfect substitution.
- c) Based on an income of $y = 110$ and a lump-sum taxes of $t = 30$, 80 units are upheld. This customer spends approximately 50 units and saving 30 units to enable him loan regardless of his perfect substitution. Therefore, his budget balances optimal savings, forcing him to borrow.
- d) With an income of $y = 150$, the consumer's spending rate increases implying that his savings are likely to decrease while his taxes increase. He will spend an average of ninety units, and possibly save twenty units.
- e) The difference arises from the increase in taxes and his spending.

Question 7:

With a preference of $U = c^{3/5}(cf)^{2/5}$, the shifting of x units from a future year to the current would imply an increase in spending.

Work cited

Andrea, M., Whinstone, M., and Jerry, G. Microeconomic Theory. Oxford: Oxford University, 2005. Print.