

Quiz #3

Enjoy!

March 28, 2008

Problem 1. Below are examples of different people and their behavior last week. Tell me whether they would be counted, last week, as being employed (**E**), unemployed (**U**), in the labor force (**LF**), and/or not in the labor force (**NLF**). For some of these people, you should have multiple answers! Just circle the appropriate status(es).

(a) Mary worked 40 hours last week at the library.

E / U / LF / NLF

(b) Joan is not working and has been looking and interviewing for jobs. Last week she received several job offers, but she turned them down because the pay was too low.

E / U / LF / NLF

(c) Frank retired a few years ago, but last week he started working only one day a week at Home Depot,

E / U / LF / NLF

(d) Kathy has been retired for years and isn't looking for a job.

E / U / LF / NLF

(e) John is in prison.

E / U / LF / NLF

Problem 2. Using some of the different labor force categories above (E,U,LF,NLF), explain two things:

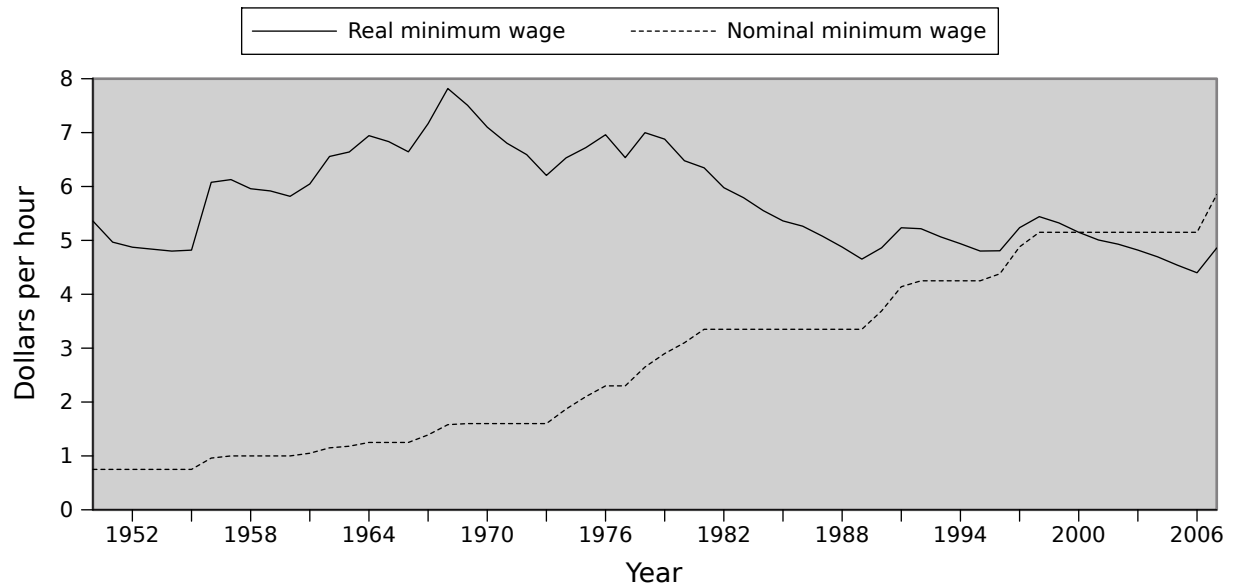
(a) How is the unemployment rate calculated?

(b) You have an opportunity to meet with your senator. You tell him that you're worried about the economy: the US is entering a recession, and more and more people are losing their jobs. He replies, "Maybe things are getting bad, but you have your facts wrong about about the labor market. The latest data show the unemployment rate is falling!" Assuming your senator is correct about the unemployment rate data, why might you still be right about the labor market?

Problem 3.

- (a) Rolf starts a job getting paid \$35,000 a year. All Rolf cares about is whatever he can buy with his salary. During that year, inflation unexpectedly increases by 10%. Is Rolf better off or worse off, and why?
- (b) Citibank lends Katie \$50,000 at a fixed 3% interest rate. Katie is supposed to pay back the money, plus 3% interest, the next year. But before she pays it back, inflation unexpectedly increases by 10%. Because of the inflation, is Citibank better off or worse off, and why?
- (c) All Katie cares about is how hard it will be to pay back her loan. Because of the unexpected inflation, is Katie better off or worse off, and why?

Problem 4. Below is a graph of the federal minimum wage in the United States, between 1950 and 2007, in *nominal* dollars per hour and in *real* dollars per hour. (Some states, like Massachusetts, have a higher minimum wage than the federal wage, but many states don't.)



- (i) If minimum wage workers only care about how much they can buy with their earnings, which years for minimum wage workers were the best years? The worst years?

- (ii) The US Congress and the President set the minimum wage into law. Just looking at the graphs, can you tell whether they set a nominal minimum wage or a real minimum wage? Explain your reasoning.

- (iii) This graph is labeled poorly: I didn't tell you which year's dollars the *real* minimum wages correspond to. That is, to calculate real minimum wages for the graph, I needed to pick a base year. Which year does it look like I picked (and explain your reasoning)?