

Economics 150A - Labor Economics
Assignment #1

Due Date: Thursday, April 10

Answer the following questions. You may hand-write mathematical answers and diagrams, but ALL text must be typed. I will not grade handwritten answers, they will receive a grade of 0. You **must** defend all answers graphically.

Question 1

Sue is currently working 40 hours per week at a wage rate of \$15 per hour. Sue also has \$40 of non-wage income per week. Her employer decides to institute a uniform cleaning fee of \$100 per week. Does this affect her hours of work choice? If so, does she work more or less?

Question 2

Nora is presently facing a wage of \$10 per hour and is choosing to work 40 hours per week. Given the described preferences, which of the following two wage contracts will cause Nora to work the most hours?

- (a) A straight over-time contract that pays \$10 per hour for every hour up to 40 hours and \$12 for every hour thereafter.
- (b) A contract that pays \$9 per hour for each hour up to hour 30 and then \$13 for every hour thereafter.

Question 3

Among single, college-educated women aged 22-25, average annual hours worked is 2,160 and the average wage is \$22.50. If the average wage increases to \$25 per hour, average annual hours worked increase to 2,340. What is the elasticity of labor supply for this group of workers?

Question 4

Does forcing a worker to pay a fixed monetary cost of work increase or decrease his reservation wage? Assume that he has a non-wage income of \$100 per day and that the going market wage rate (i.e. the wage he can earn if he chooses to work) is \$10 per hour.