

Practice 2 – Introduction to Labor Economics (deadline: the day before next tutorial)

Answer the following questions based on what was done in class. Do not use more than one sheet to answer all questions.

1) Provide three original examples of positive economics and the three associated cases of normative economics.

2) Provide one example of positive externality and one example of negative. Try to be original and do not use examples from class. Discuss the different alternatives the state has for intervention. Remember, an externality is an unexpected result in some economic activity which can have a positive or a negative social consequence; that is, a benefit or cost which is not reflected in the market.

3) Discuss a case in favor of the income tax. Discuss another one against it. Think in terms of the efficiency and equity concepts and the relationship with positive and normative economics.

4) Make a simple graph of the labor market, naming axes, curves, and other features you might consider important. Suppose that a minimum wage law is put into effect, and such a wage turns out to be higher than the real wage which would leave the market in equilibrium. What is the prediction you would get from the figure? What would be the consequence (if any) in the case of a minimum wage which is lower than the equilibrium one?