

Practice 9 – Introduction to Labor Economics (deadline: before next tutorial)

Answer the following questions based on what was seen during the last week.

1) Imagine a “disequilibrium point” of underemployment. How would the MRS be in comparison to the wage rate given by the market and what does that mean? Use a graphic if you think it convenient. Remember the concept of “slope”.

2) Indicate in every one of the cases below if the worker will be willing to work longer hours or not:

- a) Wages go up and the substitution effect is greater than the income effect.
- b) Wages go down and the substitution effect is smaller than the income effect.
- c) Wages go down and the substitution effect is greater than the income effect.
- d) Wages go up and the substitution effect is smaller than the income effect.

3) Plot an increase of the wage rate using the IC-BC setting, assuming that the individual is located in that stretch of the supply curve where the substitution effect is larger than the income effect. Also derive and plot that part of the supply curve. Explain.