

ECON 101

TA Worksheet, Module 11 (Labor and Wages)

Name: _____

Date: _____

1. Consider the data below for a snow shoveling company:

Workers	Total Output (driveways per hour)	Marginal Product	Marginal Revenue Product
1	3	3	30
2	6	3	30
3	9	3	30
4	11	2	20
5	12	1	10
6	12 (oops, no more shovels!)	0	0

a. Fill in the table assuming the price of shoveling a driveway is \$10.

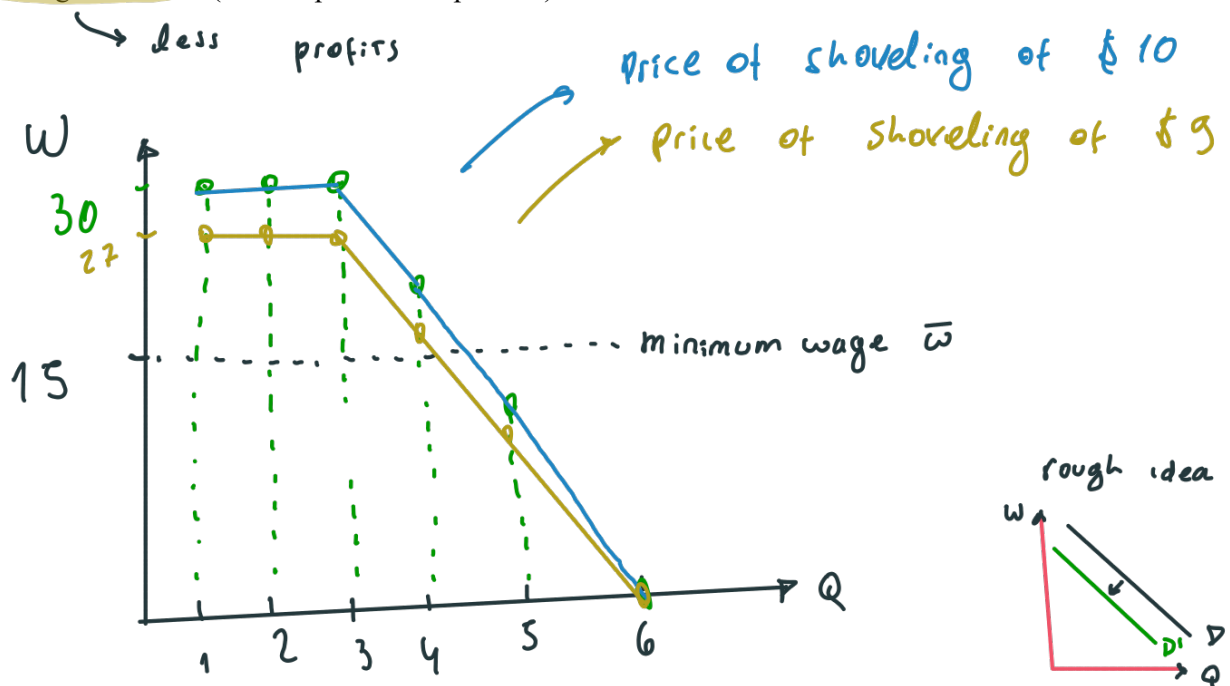
b. If the wage is \$15, how many workers will you hire?

Hire if Marginal Revenue > \$15. 1st, 2nd, 3rd and 4th.

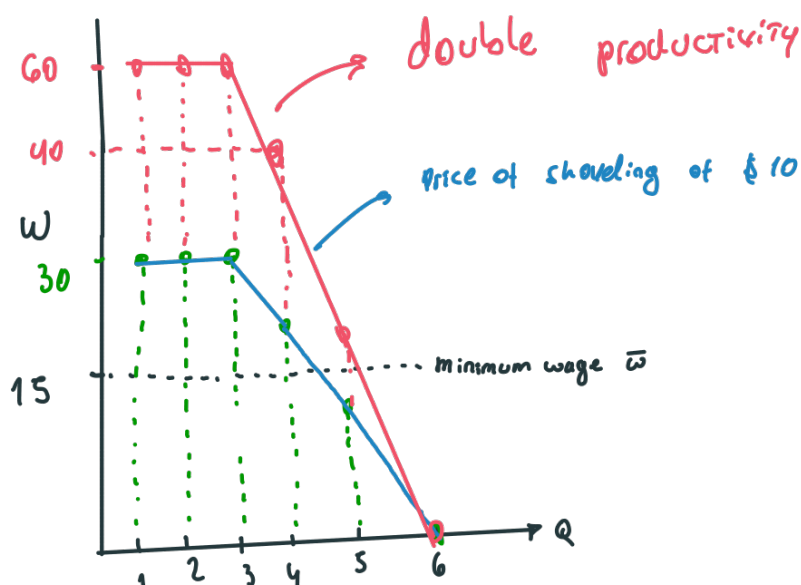
c. If the wage rises to \$25, how many workers will you hire?

Only the first 3 ones, as Marginal Revenue (\$30) > \$25

d. DRAW (roughly – no need to be exact) what would happen to the demand for labor if the price of shoveling a drive fell (assume perfect competition).



- e. DRAW (roughly – no need to be exact) what would happen to the demand for labor if you bought snow blowers that doubled productivity?



2. Suppose your parents are paying for everything in college except for your \$200/month car insurance bill. You work just enough to pay that \$200 and no more. Suppose your boss gives you a raise (hourly wage rises). Do you work more or less now? What does that say about the income and substitution effects?

if you work more, the extra money isn't going to help much, as your parents would be paying for everything.

effects:

Substitution - positive, as wage increased

Income - negative, as you're richer, you prefer to put more time in leisure.

AND. $|SE| < |IE|$, income effect offsets substitution. you work less.

3. Think of an example of a compensating differential for a job.

Higher wage an employer must pay for a job with undesirable characteristics.

e.g: \$ 17 day shift
\$ 20 night shift for the same job.