



In-Class Exercise #3

January 28, 2021

Answer the following questions in the spaces provided or in a separate document.

1) In what specific ways does Becker's model of the allocation of time differ from the simple work-leisure choice model? Compare the functioning of the income and substitution effect in each of the two model. Do the two effects have the same impact on labor market work in both models?

2) In 2014, the United States had a population of 299 million of which 70 million were either under 16 years of age or institutionalized. Approximately 151 million people were either employed or unemployed but actively seeking work. What was the participation rate in 2014?

3) What happened to the aggregate labor participation rate in the post-world war II period? To the participation rate of males and females? What factors account for the declining the participation rate of older male? Explain each briefly.

4)“Empirical evidence for the US suggests that the labor force participation rate varies directly with unemployment. Do you agree? Explain in terms of the discouraged worker and added worker effects”

5) The added-worker effect can be explained in terms of the income effect, while the discouraged-worker effect based on the substitution effect. Do you agree? Explain.