HW 6 Opportunity Cost of Inputs 3

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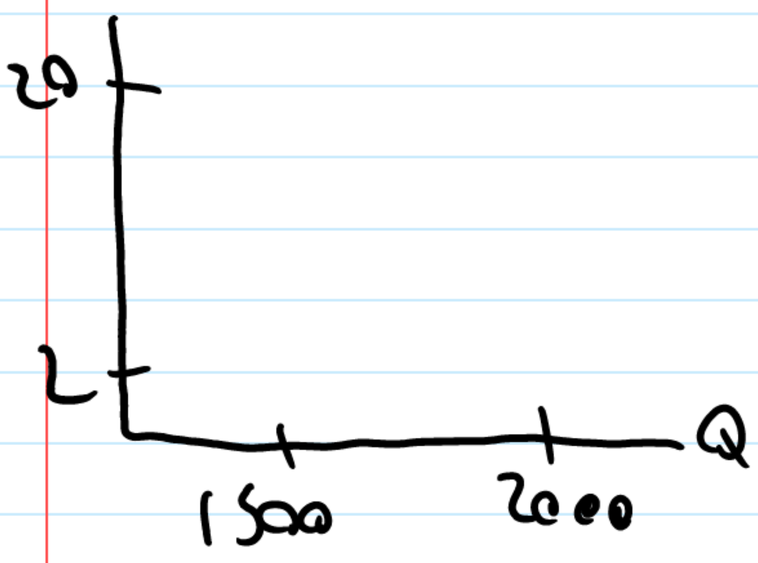
worked w/ Nick L + Austin

Imagine a rural area with a current wage rate of $20 at which 1500 workers are employed and 500 are unemployed. A government project will hire 50 workers at the going wage rate. Assume reservation wages for those hired are more or less uniformly distributed between $2 and $20. The METB is 0.2. Estimate the expected opportunity cost of project labor.

OC/worker (20+2)/2 = 11 → reservation wage



worker oc = 11 · 50 = 550

overall oc = (11 · 50) + (20 · .2 · 50) = 750