

EC1B5 | Chapter 9

Employment and Unemployment

Additional Practice Questions:

Book Question 5

Suppose Construire Construction Firm makes a special window frame that it sells for €20. The following table shows the number of window frames that can be produced from a given number of labor hours. Assume that the company cannot hire labor for a fraction of an hour.

Hours of Labor	Quantity
0	0
1	40
2	75
3	100
4	120
5	145
6	150
7	152

- Find the marginal product (in window frames) and the value of the marginal product (in euros), of each hour of labor.
- If the wage paid to workers in Construire Construction's plant is €450/hour, how many hours of labor should the firm employ? How many hours will be employed if the wage decreases to €350/hour? Explain.
- How many hours will be employed if the wage is €450/hour, but the price of a bracket rises to €25?

Book Question 8

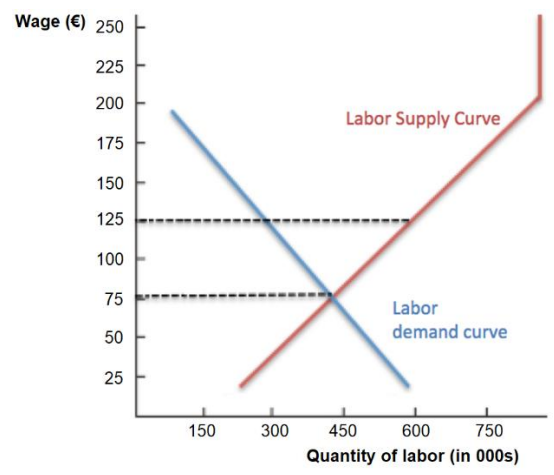
Countries around the world have faced a youth unemployment crisis in recent decades. According to a report by the International Labour Organization, the global youth unemployment rate in 2016 was 2.9 times higher than the global adult rate

- In Exhibit 9.10 we compared the curves for two types of labor, low-skill and high-skill. Suppose that the curves show the labor market for workers over the age of 22, with a minimum wage of \$10. Use new graphs to demonstrate two ways in which the youth labor market might feature greater structural unemployment at the same minimum wage.
- How would you distinguish between the two different explanations you proposed in part a: what kind of data would you need to test these different explanations?

- c. Some countries, like the UK, have attempted to reduce youth unemployment by implementing a lower minimum wage for workers under the age of 20. Discuss how this might influence youth unemployment, linking your answer to the two explanations discussed in parts a and b as well as to the different types of unemployment discussed in this chapter. Do you think efforts to reduce youth unemployment by setting lower minimum wages for young workers is likely to be effective?

Book Question 9

The following graph shows the demand for and supply of labor in a market with a minimum wage set at €125 per month. Use the graph to answer the following questions.



- How many workers will be unemployed due to the minimum wage? What kind of unemployment is this?
- Give an example of a minimum wage rate that would not affect the quantity of labor demanded nor supplied. Explain.
- Do you think all current employed people would benefit from the minimum wage rate?
- What is the difference of the impact of the minimum wage rate on unemployment between developed and developing countries?

Book Question 11

Assume that half of all workers are White and the other half Black. All workers are equally productive. Draw a graph of the labor market for White and then Black workers. Include the equilibrium wage and quantity of workers hired. How do the equilibrium wage and quantity compare in each market?

- Now assume that employers believe that Black workers are less productive than White workers. Add a new demand curve to the market for Black labor that reflects the belief. How does it affect the demand for labor for both White and Black workers? What happens to the equilibrium wage and quantity hired?
- Does discrimination affect structural unemployment?

- c. Assume that some employers correctly measure the productivity of Black workers and some do not. If you are a Black worker, how can you avoid a lower wage from discrimination?
- d. Why is the added job search still a cost of discrimination?