Exam 1 Study Guide

ECON 380
UNC Chapel Hill

Stuff to know for exam 1:

Labor Force Accounting & Unemployment

1. How to classify individuals - E, U, O, or not in P

2. What are discouraged workers? Marginally attached workers?

3. How to compute the LFPR

4. How to compute the unemployment rate

5. What are the major issues with using the unemployment rate?

6. What are the different types of unemployment?

7. What policies might be most effective at combating different unemployment types?

Neoclassical Model of Labor Supply

1. Properties of indifference curves

2. What do MU_L and MU_C measure?

3. What is $MRS_{L,C}$ in words? Graphically?

4. How to write the equation for an individual's budget constraint and how to graph a budget constraint (CHARLIE)

5. What is the price of leisure?

6. How do changes in (i) non-labor income and (ii) wages affect the budget constraint?

7. How does a worker choose the optimal number of work hours? Don't need to know how to algebraically solve, just the condition and how to show graphically.

8. What's the intuition behind the tangency condition? How should a worker reallocate his bundle if $MRS_{L,C} < w$? If $MRS_{L,C} > w$? (e.g., exam 1 question)

9. How do changes in non-labor income affect the hours-worked decision if leisure is income normal?

10. How do changes in the wage rate affect the hours-worked decision? Is the overall impact unambiguous?

11. What happens to hours-worked if the income effect dominates the substitution effect? What if the substitution effect dominates the income effect? What do the graphs look like for each case?

12. What is the endowment point?

13. What is the reservation wage (in words)? How to calculate it?

14. How do changes in non-labor income affect the reservation wage? Changes in the wage rate?

15. Model predictions under (i) AFDC/TANF and (ii) the Earned Income Tax Credit

Labor Demand

1. What do we assume is the goal of a firm?

2. What is the condition to find the optimal number of workers to hire in the short-run?

3. Solving for optimal number of workers to hire in SR (e.g., HW and exam questions)

4. Condition to optimally allocate labor and capital in the LR.

5. How to reallocate labor and capital given r, w, and $MRTS$. Know how to explain why the reallocation is more efficient

6. Relationship between short-run and long-run demand elasticity? Why?

7. Effects of minimum wage in a competitive labor market. How unemployment and employment relate to elasticity of supply and demand.

8. How and why short-run vs. long-run effects of minimum wage likely differ