

Assignment 4: Supply and demand

We will work on this together today and Friday. If you don't finish during class, please complete the assignment outside of class with other students or individually.

Due Monday 3 October. Please submit hardcopy at the beginning of class (11:00 a.m.), or if you prefer, under the door of Wimberly Hall 339C by 10:50 a.m.

The U.S. labor market

1. Consider the U.S. labor market, which is in equilibrium with wage w_{2020q1}^* and quantity of labor L_{2020q1}^* . Depict this with a supply and demand model (as always, label axes and curves properly).



2. Which entities (e.g., in the circular flow diagram) does the demand curve represent?
3. Which entities does the supply curve represent?
4. Suppose that due to the pandemic, people generally want to work less. On the same graph above, please illustrate this change and label any new curves with a subscript 1.
5. Because the pandemic has made international trade more difficult, U.S. firms want to increase domestic production of goods. Accordingly, U.S. firms want to hire additional labor. On the same graph above, please illustrate this change and label any new curves with a subscript 2.
6. Given all these changes to supply and demand, please label the new equilibrium wage as w_{2021q1}^* and equilibrium quantity of labor traded as L_{2021q1}^* .
7. Do you know whether L_{2021q1}^* is higher than, lower than, or the same as L_{2020q1}^* ?
8. Do you know whether w_{2021q1}^* is higher than, lower than, or the same as w_{2020q1}^* ?