Homework2 谈木天 Victor

0455/22/M/J/17 T7

a First reason is the price of the capital goods is lower than price of labor.

Second reason is the fall in the aggregate demand.

b First cost is people will suffer a very low income because they have no works, so they can only get money from unemployment benefit, so they may experience absolute poverty.

Second, the other cost is their child’s education is low, because they don’t have enough money for their children to go to school.

c First, because the time a product can be stored is different, if a product can be stored for a longer time, the supply will be more elastic.

Second, since the time produce a product is different, so as the product need less time to produce, if the quantity demand changed, the supply is still very high, which means it will have price elastic supply.

Third, because each product have different cost to alternating it’s supply, which means as the price increase, to get higher profit, producer will increase the quantity supply, but if the cost is high, the supply will not increase which means is price inelastic.

d On one side, increase government spending will reduce poverty.

First, if the government spending on unemployment benefit increase, for those people who are unemployed, they will get more money and will educe absolute poverty since more people can afford necessities.

Second, if the government spending on subsidy to firms increase, firms will have more money and cost of production will decrease, so they will give more money to workers and people get more money and relevant poverty will decrease.

On the other side, increase government spending will not reduce poverty.

First, if the government spending on capital goods increase, the supply of capitals will increase, so the price of capitals will decrease, and if the price of capital is lower than price of labor, firms will choose to be capital-intensive.

Second, if the government spending on subsidies to firms increase, firms will get more money, and the working condition of worker is better, so the income of workers will decrease because of it, people will get less money and relevant poverty increase.