# 1   Graded Questions

1. Sketch the Lorenz curve for a country whose income is distributed as follows:

Quintile	Income Share (%)
1st	10
2nd	15
3rd	20
4th	25
5th	30
Total Income	$250,000

   (a) If each resident's income increases by 2%, how will the Lorenz curve change?

   (b) The government sells oil rights to a foreign mining company and distributes the proceeds equally to each resident. All incomes increase by $2,000. Is the new Lorenze curve closer or further from the 45-degree line?

2. Consider the following labor supply graph:
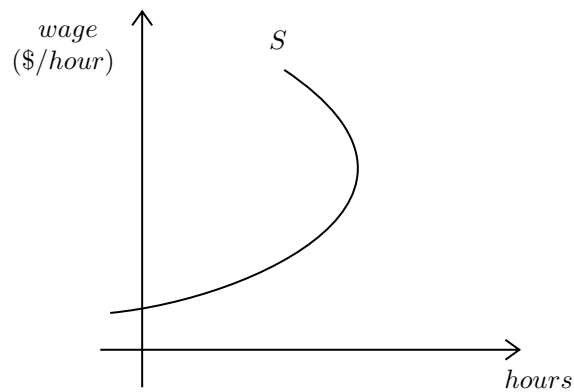
   (a) What effect causes the curve to slope upwards?

   (b) What effect causes it to bend backwards? Explain.

3. Consider the market for land on Manhattan.
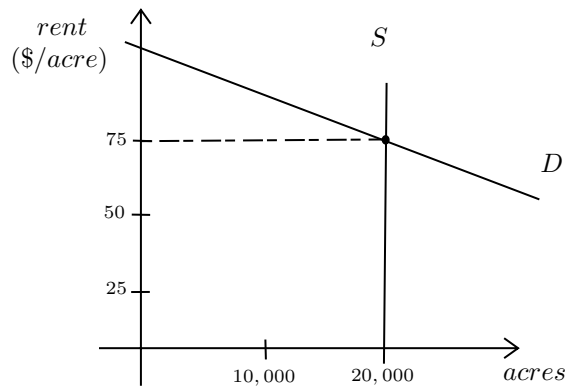
(a) Landowners rent their property to commercial and residential tenents. Landlords must pay $50/acre to maintain their land. What is the economic rent earned by the landlords of Manhattan per acre?

(b) Suppose that the city government imposes a $10/acre tax on land rentals. Who bears the burden of the tax: renters, or land owners?

(c) Illustrate the effect of the tax on the graph.

(d) In general, why are taxes on economic rents preferable to other taxes?

4. The Wal-Mart in a rural town is the only major employer.

(a) Draw a graph of the labor market under the assumption that Wal-Mart has monopsony power. Include demand, supply, and the marginal factor cost.

(b) Identify the equilibrium wage and quantity.

(c) Show how a minimum wage can raise both the wage and the quantity of labor in this market.