

Econ_101_Fall_06_IVY Tech College
Homework 05 Solutions

Chapter 09

4. Consider two markets for carpenters: the city of Portland and one of the United States. Draw two supply curves for carpenters, one for the city of Portland and one for the United States. Explain any differences between the two curves.

The supply curve for the city is flatter, indicating that workers are more responsive to changes in the wage at city level. People are more mobile between cities than between nations: an increase in the wage in Portland will generate a larger increase in quantity supplied because people can easily move from other cities in the United States to Portland.

5. The advocates of higher salaries for teachers point out that most teachers have college degrees and that the teaching of children is an important job.
- a. Why aren't teachers' salaries higher, given the importance of the job and the education required?

The supply of teachers is large relative to demand, so wages are relatively low. This could result from the psychological rewards from teaching, the work hours, or the free summers.

- b. Suppose that a law is passed that requires teachers to be paid the same hourly wage as college graduates who work in business. Predict the effects of this law on the market for teachers.

This is effectively a minimum wage for teachers, and it has the same effect as a minimum wage for any occupation: the increase in the wage will decrease the quantity demanded, so some teachers will lose their jobs.

7. Suppose a new government program improves worker safety in coal mines. Use a graph to predict the effect of the program on the equilibrium wage for coal workers.

Let's assume that the program is paid for by government, not coal companies. The program will increase the supply of coal workers, shifting the supply curve to the right. The equilibrium wage will decrease.

Chapter 10

1. Should we care more about the growth of nominal GDP or real GDP? Real GDP measures output of goods and services. Therefore, it is the more important measure for economic growth.

For Problems 2-4, use the following data:

	Quantities Produced		Prices	
	CDs	Tennis Racquets	CDs	Tennis Racquets
Year 2004	100	200	20	110
Year 2005	120	210	22	120

2. Calculate real GDP using prices from 2004. By what percent did real GDP grow?
Real GDP for 2004 = 24000. Real GDP for 2005 = 25500. Growth = 6.25%

3. Calculate the value of the price index for GDP for 2005 using 2004 as the base year. By what percent did prices increase?
Nominal GDP for 2005 = 27840. GDP deflator for 2005 = $100 \times (27840/25500) = 109.18$
6. A student once said, "Trade deficits are good because we are buying more goods than we are producing." What is the downside to trade deficits?
To run a trade deficit, a country must sell some of its assets to foreign citizens.
8. A publisher buys paper, ink, and computers to produce textbooks. Which of these purchases is included in investment spending?
Computers. The other items are intermediate goods.
9. Air quality in Los Angeles deteriorated in the 1950s –1970s and then improved in the 1980s and 1990s. How could this change in air quality be incorporated into our measures of national income?
It would require valuing clean air. This might be possible using the price of pollution permits.