Chapter 6 Review: John

Readings: Mankiw: Chapter 6 all

Outline

I. The Dynamics of Unemployment
   A. Our model
   B. Steady-State (long-run equilibrium) U
   C. Example

II. Applications
   A. Unemployment over the business cycle
   B. U_{Rate} and demographics
   C. U_{Rate} and transfer programs
   D. Rapid structural change (sectoral shift) in today’s economy
   E. How to reduce U? (See text)

III. Actual U and Its Components
   A. Reconciling the different names
   B. “Natural” Unemployment
   C. Frictional Unemployment
   D. Wait Unemployment
   E. U_{Actual} = ?

IV. Examining Minimum Wages (& Unions)
   A. General economic view
   B. Possible revisionist views

V. Wages and Productivity
   A. Traditional view
   B. Efficiency Wages view

Problems to Study (not graded)

5. p 152: Questions For Review # 5.
7. p 152: *Problems and Applications* # 2.

8. p 152: *Problems and Applications* # 3.


10. p 152: *Problems and Applications* # 7.

11. Ahhh! Finally, the summer session is over and you have some time to relax! You, of course, head up to Ozark, Missouri to visit your favorite uncle, Buck. Unfortunately, you arrive just as Buck and his son Clint are arguing about teenage unemployment. Buck states; “Teen unemployment is so high because teenagers are too lazy to work.” Clint counters, “Teen unemployment is so high because evil adults conspire to withhold jobs from hardworking teens.”

    • Share your ideas on teen unemployment with Buck and Clint. In particular, describe the model of unemployment presented in lecture and the text. In the context of this model, explain why teen unemployment is so high (relative to adult unemployment). Hint: The value of one variable was stressed in explaining teen unemployment. Another hint: Aside from the subject of unemployment, Buck and Clint are pretty smart (Buck is working on his Masters in Applied Physics and Clint is a Cal Tech grad in Engineering and Humanities). Don’t dumb down da answer….

    • Based on your analysis, is teen unemployment more of a social problem, or less of one, than Buck and Clint seem to believe?

12. Senator Droit is supposed to address an economics convention. He wishes to speak against attempts to raise the minimum wage. Help the Senator out.

    • Explain the basic argument against the minimum wage. Make sure you use a graph in your explanation.

    • Who does the minimum wage affect the most? Are there any arguments, in addition to higher unemployment, why many in these groups do not need the minimum wage (see the text)?

13. Senator Gauche has hired you away from Senator Droit’s staff. .Senator Gauche is supposed to address the same economics convention. He wishes to speak in favor of attempts to raise the minimum wage. Help the Senator out.

    • Give one good economic argument, from lecture and or the text, in favor of the minimum wage. Explain your argument well.

14. In the early 1900s, Henry Ford started paying his workers about twice the going wage for workers of their skills. Is there an economic theory, discussed in this course, to support this? If so, explain this theory. If not, explain what conditions usually assumed by economic theory (ex. competition, rationality, gravity) were not holding in Ford’s case.
15. Describe the major changes in U.S. government transfer programs since the early 1990’s. How will these, according to the model we discussed in class, affect the unemployment rate?