

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

- 1) (40 points) Draw the three diagrams for the three employment markets. Illustrate an increase in the wage in the formal market. (This might occur if an American company decides to bow to domestic pressure to raise its wages or it would occur if China enforces its new laws.) Explain why the curve(s) moved as drawn. What happens to the wage in each sector? Why does that occur?
- 2) (15 points) Why is migration a function of $pW_u - W_r$ rather than $W_u - W_r$?
- 3) (15 points) Do you think the W_u in the equation in question #2 is the formal urban sector or the informal urban sector? Explain your logic.
- 4) (15 points) What are the benefits of urbanization?
- 5) (15 points) What are the problems with inducing migration to the cities?