Wilf Csaplar Jr.         Economics 302         Homework #2         **Due Tuesday 2/13**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) Explain the equation $\Delta Y/Y = 3 - 2\Delta u$. In addition to explaining $\Delta u$, explain what the 3 means and why the 2 is greater than 1.

2) (35 points) Draw the production function with labor on the horizontal axis and the labor supply/demand diagram. Illustrate the effects of an increase in capital. Explain why the curve(s) moved as drawn. Find the before and after points on both graphs. State how you found them. What happens to the number of workers employed, the real wage rate, and the production?

3) (15 points) When we draw the labor demand curve, there are two effects which determine the slope. What are they? Which did we assume to be stronger? Explain your logic.

4) (15 points) Draw the production function with capital on the axis. Illustrate the effects of a positive supply shock. Explain why the curve moved as drawn. What is an example of a positive supply shock?

5) (10 points each) For each of the following, determine what happens to the labor force participation rate and the unemployment rate. Explain your logic. Also determine which category of unemployment is affected and explain why you chose that type.
A) A ski instructor in this area loses their job on March 31$^{st}$.
B) An unemployed coal miner in this area is so tired of looking for a job, they quit looking.