

Economics 100B Fall 2005 Midterm 2 Review Questions
Chapter 7
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1. A country has a total population (age 16 and over) of 300 million. Of this population, 225 million are employed, 25 million are unemployed, and the remainder of the population is not in the labor force. The economy is at its natural rate of unemployment when 10 million people are unemployed. Use the given data to calculate the following.
 - (a) What is the size of the labor force?
 - (b) What is the employment-population ratio?
 - (c) What is the current unemployment rate?
 - (d) What is the size of the output gap?

2. Suppose the President passes two changes to the tax system that are implemented simultaneously. The new policy decreases the corporate income tax and decreases the individual marginal income tax. Using a labor supply and labor demand graph, explain the impact of the policy on wages, the size of the employment population ratio, and unemployment.

3. Use the following equations for labor supply and labor demand, to answer the following questions. L stands for labor and w stands for wage per hour.

$$\text{Supply: } L^S = 200 + 3w$$
$$\text{Demand: } L^D = 300 - 7w$$

- (a) What is the equilibrium level of employment and wage rate?
- (b) If the country has a minimum wage implemented of \$20 per hour, what exactly will happen to the equilibrium levels of L and w? Is this good or bad for the economy?