

Name: \_\_\_\_\_

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## CHAPTER 9, SECTION 1

### What Determines Wages?

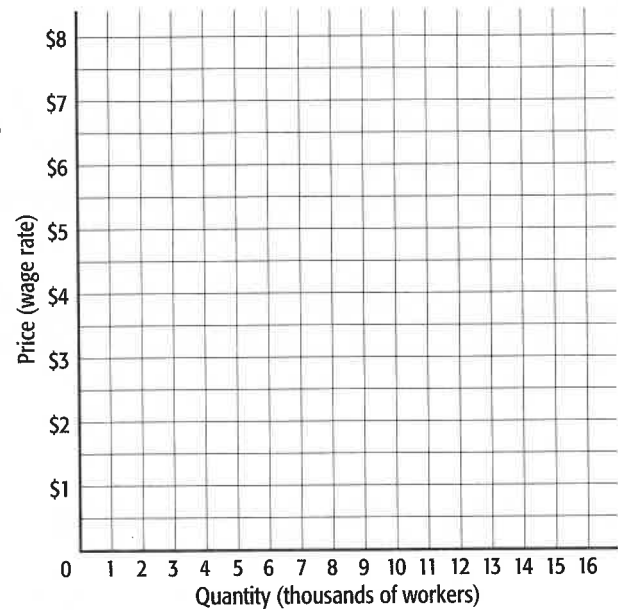
#### Wages In an Unskilled Labor Market

The following table shows the number of workers demanded and supplied at various wages in the unskilled labor market in H-Town. Use this table to respond to question 1.

#### UNSKILLED LABOR MARKET IN H-TOWN

Hourly wage	Number of workers	
	Demanded	Supplied
\$2	14,000	2,000
\$3	12,000	4,000
\$4	10,000	6,000
\$5	8,000	8,000
\$6	6,000	10,000
\$7	4,000	12,000
\$8	2,000	14,000

- Use the information in the table to draw the supply and demand curves for this labor market on the following grid. Use the wage rates (prices) and number of workers (quantities) demanded to plot the demand curve. Label it  $D_1$ . Use the wage rates and number of workers supplied to plot the supply curve. Label it  $S_1$ .



Unskilled Labor Market in H-Town

Use the graph you created in question 1 to answer questions 2 and 3.

- The equilibrium wage for unskilled labor in H-Town is \_\_\_\_\_.
- The equilibrium quantity for unskilled labor in H-Town is \_\_\_\_\_ workers.

## Minimum Wage

Many community leaders make passionate speeches before the city council on behalf of the low-wage workers in H-Town. The community leaders maintain that the way to help low-wage workers is to raise the minimum wage. Due to the hard work and persuasive speeches, the city council of H-Town passes a law that sets the minimum wage at \$7 an hour. Low-wage workers celebrate at the prospect of earning \$7 an hour.

Use the above information to respond to question 4.

4. Illustrate the minimum wage by drawing a horizontal line at \$7 on the graph you created in question 1.

Questions 5–10 are based on the new graph, which now shows a minimum wage of \$7 an hour. Write your answers in the blanks provided.

5. The quantity demanded at the minimum wage is \_\_\_\_\_ workers.
6. The quantity supplied at the minimum wage is \_\_\_\_\_ workers.
7. The government of H-Town intended to help low-wage workers by setting the minimum wage at \$7 an hour but, instead, has created a \_\_\_\_\_ of \_\_\_\_\_ workers.
8. Because these people are looking for work but cannot find it, they are considered \_\_\_\_\_.
9. Setting the minimum wage at \$7 an hour had the \_\_\_\_\_ of creating an unemployment problem in H-Town.
10. Now, suppose that many of the citizens of H-Town want to get rid of the minimum wage of \$7 an hour to try to reduce unemployment. In opposition, persuasive speakers paint a picture of workers earning only \$2 an hour in the absence of government regulation. Explain why this scenario is highly unlikely.

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Write your answers to questions 11 and 12 in the blanks provided.

11. Who are the winners and who are the losers when the minimum wage is increased?

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12. Do you support an increase in the minimum wage? Why or why not?

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## Why Different Wages?

Questions 13–16 relate to the wages earned by different people. Write your answers in the blanks provided.

13. What are two of the reasons why some people earn more than others?

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14. Both doctors and sanitation workers may have a significant effect on people's health. Explain why doctors earn more than sanitation workers earn.

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15. Sally has just earned a degree in economics. She has two job offers, one from a university for \$70,000 a year and one from a Wall Street investment bank for \$150,000 a year. Assume Sally chooses the university job. Complete the formula that applies to this situation.

Benefits in a job =

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16. How much are the nonmoney benefits of the university job worth to Sally?

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## Real Wages

Real wages measure wages in terms of what the wage can buy. The formula  $\text{Real wage} = \text{Money wage} / \text{CPI}$  provides a way to compare the wages earned in different years. Questions 17–19 relate to comparing real wages.

17. Your great-grandfather, grandfather, and father are arguing about wages over dinner on Thanksgiving Day. Each claims to have had a tougher time supporting his family. Your great-grandfather earned \$4,000 a year in 1940 when the CPI was 13.9; your grandfather earned \$12,000 a year in 1970 when the CPI was 37.8; and your father earned \$50,000 a year in 2004 when the CPI was 185.2. Rank your patriarchal line from highest to lowest according to real wages. Include the real wage value for each rounded to the nearest whole number.

*Highest real wage:*

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*Second highest real wage:*

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*Lowest real wage:*

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18. Your Aunt Judy complains that although she continues to earn more money each year, she doesn't seem to have as much buying power as she used to have. Use the real wage formula to fill in the missing numbers in the following table. Round your answers to the nearest whole number.

<b>Year</b>	<b>Aunt Judy's money wage</b>	<b>CPI</b>	<b>Aunt Judy's real wage</b>
1985	\$25,000	105.5	_____
1990	\$30,000	127.4	_____
1995	\$35,000	150.3	_____
2000	\$39,000	168.8	_____
2005	\$43,000	190.7	_____

19. Is your Aunt Judy correct? Has her buying power been decreasing over time?
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