

ECO 120: Macroeconomics

Name: _____

In-class Exercise

Labor Markets

Section (Circle One): 7:45 - 9:10AM 9:25 - 10:50AM

Directions: Work in groups of up to four people and answer the following questions. *When using graphs, you must clearly and correctly label all axis and curves to receive non-zero credit for an answer.* All papers will be collected, but only one member's paper will be randomly selected and graded and all members of the group will receive the same grade.

By signing below, you agree that the following work represents the efforts of everyone in the group, and you are willing to accept as your own grade for the group project the grade earned from this representation of your group's work. Every member must agree to these terms to earn a non-zero grade for this assignment.

_____ Signature Group Member 1	_____ Print Name	_____ Date
_____ Signature Group Member 2	_____ Print Name	_____ Date
_____ Signature Group Member 3	_____ Print Name	_____ Date
_____ Signature Group Member 4	_____ Print Name	_____ Date

1. How do you think “jobs are created” in the economy? Who is responsible for “creating jobs”?
2. Illustrate and describe the impact of an improvement in computer technology on the aggregate labor market. What is the impact on wages and employment in equilibrium?
3. Illustrate and describe the effect of an increase in taxes on proprietorship income and corporate revenue on the labor market. What is the impact on wages and employment in equilibrium?

4. There was a large decline in stock market prices in the United States from 2008-2009 during the most recent recession and financial crisis. The Dow Jones Industrial Average dropped by 54% from its peak from October 2007 to March 2009. Many people who were planning to retire near this time saw the value of their lifetime savings decline substantially. Describe the effect this has on people’s retirement decisions, and describe and illustrate the impact on the labor market.

5. From 2009-2012, due to sluggish economic conditions, Wisconsin state and local governments, like most state and local governments in the United States, found themselves with substantially less revenue collected from taxes than in previous years. With limited willingness and ability to expand government borrowing, many state and local governments decreased expenditures on public programs, leading to decreases in employment of government workers. Illustrate and describe the effect on wages and employment in equilibrium in the aggregate labor market.

6. Suppose a labor market is currently in equilibrium when there is a decrease in demand for final goods across the economy.
 - (a) Illustrate and describe the impact on the labor market. What is the impact on wages and employment in equilibrium?

 - (b) Suppose that resistance among employers and employees prevents the wage level from falling, so that in the short run the economy is away from its equilibrium. How does the quantity of labor demanded compare to the quantity of labor supplied? How is this situation often described?

 - (c) Suppose eventually wages across the economy were allowed to fall. What would be the impact on the level of employment?

7. How do you think “jobs are created” in the economy? Who is responsible for “creating jobs”?

8. One UW-L General Education learning outcome that this course strives to meet is to enhance your knowledge and ability to think critically and creatively. Describe a new way of thinking that you developed with this exercise, and one specific aspect of real world economic situations that you better understand as a consequence.